Dr. Nile Hatch

Dr. Hatch is a Co-Founder and Chairman of Quantival. Dr. Hatch is an Associate Professor of Business Strategy at the Marriott School of Management at Brigham Young University and a world-renowned expert in demand-based pricing. Contact Dr. Hatch at nhatch@quantival.com

At Last, Intelligent Pricing Designed To Grow Revenue!

NGCOA Canada
Intelligent Pricing Engine
Powered by Quantival

John Green was uneasy as he walked his golf course. In ten years as the owner and operator of the Heron River Golf Club he was accustomed to the ups and downs, but this was different. He wanted to blame it on the economy, but his golf course had sailed through the 2008-2009 crisis. Given the globe's continuing economic turmoil, his financial situation could change at any time, and that was enough to make anyone uneasy.

It was apparent that the new course ten kilometers to the south had taken market share when it was built five years earlier. Heron had experienced a similar impact when a course seven kilometers to the west was completed three years prior to that.

While the new courses had taken market share, their arrival was only a part of what could explain the pricing challenges that John was experiencing. As golfers at Heron had started to play less, he felt pressured to lower prices to attract golfers. He had tinkered with a 3% discount to green fees and then a 5% decrease, but while utilization had risen, the revenues had not budged. In fact, revenues seemed to be slightly down, and worse, operational expenses, from the increased utilization, were now climbing.

He could see wear and tear starting to accumulate in small but significant spots around the course and knew that the expense cuts were now impacting course quality. John was apprehensive, as he looked into the cup on the 14th green. All it would take now for real trouble was a decline in consumer confidence from a new recession. Worse, the two new courses were now beginning to discount heavily and there was nothing he could do about it. Or was there?

BROKEN PRICING MODELS

John's story has unfortunately become the norm. Everywhere you go in golf today you will see similar problems – unused tee times, empty fairways, and courses struggling to invest in their own business. Talk to any golf operator and you will hear familiar but alarming tales of golfers who are addicted to deals that need to be cheaper and cheaper each subsequent month. Isn't there a better way?

Why doesn't pricing communicate value or attract golfers as it once did? This is partly due to changes in the golf ecosystem, and to new third party system providers that have leapt to fill business opportunities. In a day of increasing technological sophistication, golf has distanced itself from the scientific tools that can restore pricing power. What John and the average golf course owner do not realize is that they have been using the same archaic pricing methodologies for more than a century. This consists of one or a combination of two basic strategies: comparison pricing or cost-plus pricing.

Comparison Pricing: Owners and operators who use this process predominantly set green fees by evaluating what similar courses within a similar geographic area are charging and then setting pricing similarly. This form of pricing assumes that a competitor's price is correctly set. The idea of the 'blind leading the blind,' is an apt illustration of the potential damages from comparison pricing.

Cost-Plus Pricing: Cost-plus pricing looks at what it costs to run a course, divides that out by the number of rounds, and sets prices to ensure an acceptable margin. Cost-plus 'Pricers,' frequently find themselves racing back and forth between maintaining revenue and keeping up with expenses. However, golfers do not care about your expenses or margins. They want a

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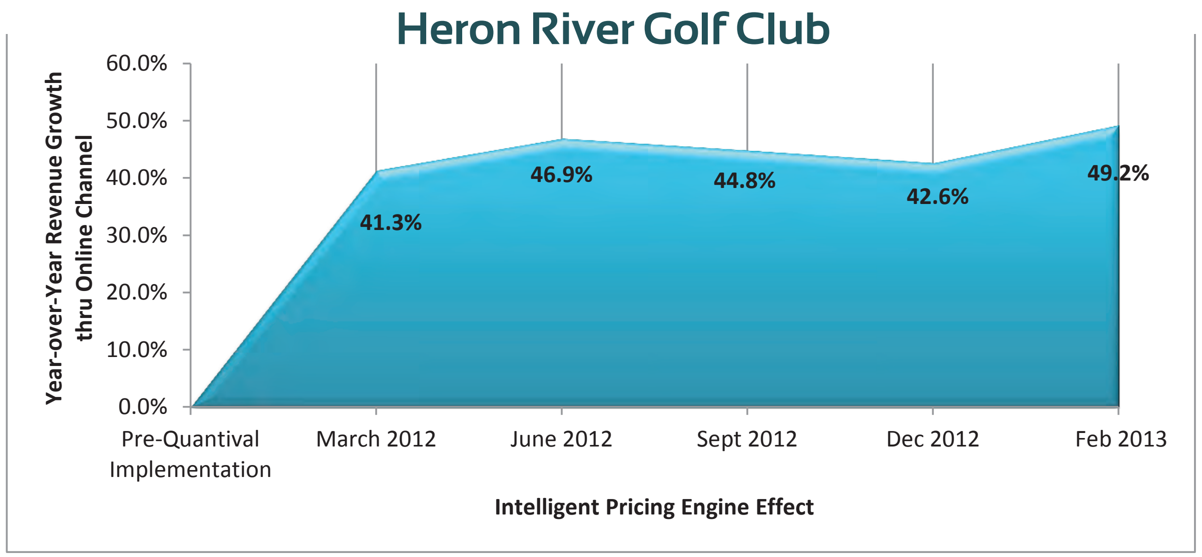
great round of golf on a great course at the right price. When markets shift against end users of cost plus pricing, cutting costs can be the only pricing solution left.

As both of these pricing approaches are badly flawed, owners are left in a dilemma. Like John, they wonder: Do I discount? Do I use a coupon? Do I raise prices back up? Where can I cut corners that won't impact my golfers? More problematically, comparison pricing and cost-plus pricing do not easily adjust to a changing market. Both approaches are static and inherently inflexible. When the game of golf is different every hour of the day, every day of the week and with every change in temperature, these pricing approaches struggle mightily to reach anything approaching an optimal price.

"So what if my prices are off a bit?" you might think. "Does this really matter so much? Aren't my approaches tried and true? They've been used for more than a century."

The misfortune in setting a wrong price is simply that — a missed fortune. It can be best described as not pocketing what 'you could have made.' As an owner like John, you spend significant time, attention, and money to improve your course's daily operations, your course's agronomy, its hospitality, and its food and beverage services. After all that work, it doesn't make sense to throw away the complete value that you have worked so hard to create.

The bottom line is that when green fees are too high golfers turn to alternative courses, or simply reduce their play. When a green fee is too low, an owner not only loses margin on every round sold, but also turns



away golfers who may be willing to pay more, and are actually frustrated when high demand tee times aren't available. Reasonable estimates suggest that owners may be losing as much as a third of their revenue potential by using either of these price setting practices.

PERISHABLE INVENTORY

Given that tee times are perishable, the golf industry is particularly susceptible to lost profits through bad pricing. Any tee time that expires without consumption is forever lost, and the failure to set a correct price is its own penalty. To avoid this penalty, each green fee must approach market demand from the outset.

Matching green fees to the value of a tee time becomes even more complicated due to external factors such as the weather, season, course conditions, traffic, local events, and global economic trends. Conditions must be factored into the setting of all green fees for optimal return, signifying that setting a correct green fee may require resetting it as often as a condition warrants. Challenging times, due to economic uncertainty are a reality of running a golf course. Weak macro-economic conditions impose a similar pain on all, resulting in

Case Study: Heron River Golf Club

Heron River Golf Club faced too much supply and too little demand in its market during the difficult years of the recent economic recession in the US. After much frustration and with limited options for improvement, the management company of the course turned to Dr. Nile Hatch and the Quantival team to implement the Intelligent Pricing Engine™.

Before deployment of the new pricing, Heron River management company, facing declining revenues, remarked that a 2% increase in revenue would be satisfactory and a 4% increase would be a homerun. The initial deployment was limited to rounds reserved online and did not account for the impact of weather. In spite of these limitations, the solution delivered an average 40% increase in year-over-year comparisons of monthly revenue in the online channel. Not surprisingly, the volume of online reservations and rounds played increased as well. Management was thrilled and quickly requested deployment on an additional course.

composite suffering, while micro-economic conditions tend to wreak local havoc. For John Green, or any owner or operator it is important to identify the impacts of converging macro and micro economic weakness.

Tee times can perhaps be best understood through an analog of real estate. A tee time is little more than a short-term lease between an owner and a golfer, and its value changes every day throughout the day. Moreover, what one golfer may find acceptable in terms of value, another may not.

The principal challenge of course owners and operators is to determine the value of a continuously changing course. So what can you do?

INTELLIGENT PRICING

Intelligent Pricing is the summit of dynamic pricing strategies and methodologies. An Intelligent Price is derived from accounting for a myriad of price impacting conditions. For golf, Intelligent Pricing factors in the decisions that golfers consider when making a decision to play a round of golf. Moreover, Intelligent Pricing systems must capture and account for all direct and indirect data that can impact a price.

An Intelligent Pricing Engine addresses everything from golfer price sensitivity to optimal course utilization. Well-executed, Intelligent Pricing not only fills previously unconsumed tee times, it also allocates high value tee times at optimal prices. Intelligent Pricing assesses the value of each tee time under a myriad of conditions and ensures that the profit potential of a course is captured.

An Intelligent Pricing system continuously learns and progresses over time. Each new transaction feeds the system to make it stronger. Intelligent Pricing needs to be core to your tee sheet software. Each transaction needs to be directly inputted into your booking systems so that pricing is always updated in your tee sheet software. When Quantival initially deployed its Intelligent Pricing Engine™ it did so based on a careful analysis of all available inputs to quantify a price. The following are the key factors of Intelligent Pricing:

1. **Hard science engineered into scientific algorithms.** Intelligent Pricing is built on algorithms that are based in real time macro and microeconomics. While other systems are generally anecdotal in nature, relying on experience and opinion which is open to continuous error, the Quantival pricing algorithms are hard-coded and capable of consistent, durable repeat performance.
2. **Dynamic / Real-time.** The Intelligent Pricing Engine operates at up to ½ second intervals, meaning that it can calculate and recalculate a price almost instantaneously. The looping inputs and outputs offer exceptional visibility into course pricing demand and continuously factors for key variables that can impact price. When deployed, the engine never rests. Each variable for which it accounts is continually updating on an automated basis.
3. **Demand-based.** Intelligent Pricing is not a qualitative process, rather it is quantitative and factors for demand in real time. Demand based pricing accounts both for the demand elements that drive golfer behavior and for the events that can impact supply. All golfer actions to purchase a tee time are factored and updated at the time they occur.
4. **Systematic.** Intelligent Pricing consists of core algorithms that are rules based and embodied in computer code. The system's algorithms assess and factor for a preponderance of external and internal conditions that impact a

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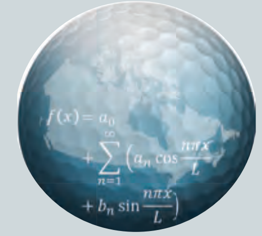

How to use the NGCOA Canada Intelligent Pricing Engine

powered by Quantival

Open architecture. Quantival is a cloud-based service provider that uses open architecture standards and recognized application programming interfaces. The Intelligent Pricing Engine is designed to readily coordinate with and complement the work of other software providers who offer reservation systems, booking engines, point of sales systems, communication arrays, social network vehicles, etc.

No Risk payment options. Quantival is proud to offer a payment option based entirely on revenue sharing with no upfront fees of any kind. System price is reasonable given that the Intelligent Pricing Engine has generated 7-40% returns. Quantival is paid only when a customer has made money from Quantival services, allowing Quantival to absorb 100% of the risk.

Mutual golfer and course owner advantage. Perhaps the following trademarked phrase best sums up the newly resultant relationship between golf course owners and golfers at the deployment of the system, when the owner says: "You name the price, we'll tell you the time; or you name the time and we'll tell you the price." This is one of the great benefits of the system and a clear reward for all of the key stakeholders.

Deploying Intelligent Pricing. The deployment of an intelligent pricing system is straightforward. It begins with the transfer of your course's historical rounds data, protected through a non-disclosure agreement. On receipt, Quantival cleans and processes the data to prepare it for analysis.

Owners are requested to participate in discussions regarding supplemental data inputs that can further optimize the process. All internal course initiatives are factored into this process. It is key to understand all objectives and course specific conditions that might impact price output.

Extensive scientific analysis results in the creation of a green fee algorithm that sets the price and that optimizes the profit of each tee time. Quantival returns the optimized prices in whatever form the reservation system requires. Once the pricing is in place, it is important that golfers know to look for it. Quantival encourages and works with courses to educate them regarding preferred communication models and current advanced technology to meet these objectives. Encouraging golfers to look online at the course generates the added value of increasing the rate of online bookings and earlier reservations.

Working with Quantival is uncomplicated. A course provides the initial data and then sends Quantival daily data updates. Quantival then returns pricing to the golf course. Quantival does not charge up front licensing fees or impose risky contracts with cancelation penalties. The preferred method for pricing is to share the revenue gains between the owner and Quantival. This approach imposes minimal risk on the owner because there is nothing to pay if there is no revenue gain. Some owners prefer the predictability of a monthly fee, which works just as well. Intelligent Pricing is not a data feed that requires you to analyze the data and make decisions but rather is a fully optimized pricing system ready to be deployed.

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For more information and to register for this new NGCOA Canada program, please contact Jim Thompson, Director Member Services, at 613-226-3616 or jthompson@ngcoa.ca.

green fee, including weather, alternative events, local demographics, course condition, etc. More simply, by probing past, present and future demand for a course's public and private rounds, and then providing revenue driving pricing for that course, we can optimize course value.

5. **Flexible implementation.** Intelligent Pricing is capable of reacting to real world events as necessary. Quantival flexibly adapts to new rules that are incorporated and can reset almost instantaneously. The system has shown robust flexibility whether being deployed at municipal pay to play, to semi-private or to 100% resort based courses. The system adapts rapidly to changes in the organization of the data it receives.
6. **Learning / Intelligent.** A key part of Intelligent Pricing is its capacity to learn from every transaction. Each time a purchase occurs the Intelligent Pricing Engine returns the feedback in an iterative process and updates the then current pricing as well as the overall calculation. The Intelligent Pricing Engine is built to grow increasingly more powerful as data crosses its threshold. The more data accessible, the more competent the system becomes.
7. **Automatic price updates.** An Intelligent Pricing Engine generates the optimum time based prices and automatically populates your pricing tables in your intelligent tee sheet. The engine does the work so you don't have to. Freeing your staff from calculating and inputting pricing allows your staff to focus on the activities that add the most value, such as improving golfer experience.
8. **Multi-channel revenue management.** Intelligent Pricing is robust and scales to all revenue channels including walk up, Internet, corporate outings, tournaments and travel groups. Course owners can initiate deployment with green fees and cart fees and then add food and beverage, pro shop, driving range and other revenue centers, as data becomes available. The engine can price all products independently or price them collectively, or as customized bundles of services.

INCREASE IN VALUE

Setting the wrong price devalues the course and may underservice the customers. Intelligent Pricing results in a substantial increase in value to both course owner and golfer. Simple discounting of prices and outsourcing of sales does not solve the core opportunity of selling tee times. Moreover, it ultimately discourages the mutual benefit of golfer / owner loyalty.

Getting the price right is a complicated process that few managers enjoy. Like John, most owners and operators are uncomfortable with their prices and the pricing process. The NGCOA Canada's recently launched Intelligent Pricing Engine powered by Quantival delivers you from the frustrations of pricing and the penalties from setting the wrong price. Technological advances have opened the door to completely new possibilities in pricing to create value for you and your golfers, and Intelligent Pricing is the world's most advanced dynamic pricing system.