YIELD MANAGEMENT

SMART STRATEGIES FOR GAINING WALLET SHARE

For parks and attractions operators, there is mounting pressure to not only get more visitors to your venue, but to also gain more wallet share from each of those visitors.

Simply keeping the turnstiles turning no longer means revenue growth, profitability and the subsequent ability to invest in the future. To maintain a competitive edge, best-in-class attraction operators are increasingly looking to maximize the value of each participant, to match a product and its price to the consumer's desire to purchase. A successful strategy rewards the participant with the best value for their purchase, rewards you with a committed participant and flattens your demand curve to maximize operational efficiency.

WHAT IS YIELD MANAGEMENT?

After the deregulation of the airline industry in the 1970s, Robert Crandall, former Chairman and CEO of American Airlines coined the term 'yield management', and called it, "the single most important technical development since we entered deregulation." In fact, the practice of yield management has been so successful that it is used not only by airlines, but by car rental companies, hotels, cruise lines and more.

Yield management, sometimes referred to as revenue management, is an umbrella term used to describe strategies used by businesses to capture the greatest amount of revenue from operations. In the attractions industry, this may take the form of dynamic pricing, wherein core products, such as daily admissions, are set at prices relative to demand. This business strategy works best in operations that sell a perishable good with a limited and fixed inventory, such as hotel rooms. In most attractions, there are two key distinctions. First, capacity is not as rigorously limited. A hotel can only fit as many people as there are rooms and beds. While an attraction may face some limitations, perhaps because of limited seating at an exhibit, the ability to continue selling tickets is often a function of operational decisions. Second, the cost of serving the next ticket sold is inconsequential. When all seats on an airplane are sold out, another seat cannot be added cost effectively; selling one more ticket, on the other hand, most commonly doesn't require any additional operating cost.

3 MUST-HAVE CONDITIONS FOR YIELD MANAGEMENT

To successfully manage yield, the following conditions are required.

+ A fixed amount of product is available for purchase
+ The product sold is perishable, or unsellable after a certain point in time
+ Consumers are willing to pay various prices for the same product

$$\text{YIELD EFFICIENCY} = \frac{\text{ACTUAL REVENUE}}{\text{POTENTIAL REVENUE}}$$

Yield management uses the strategy of offering the right product, at the right time, to the right customer, at the right price, each of which involves specific tactics to be effective. When implemented well, yield management narrows the gap between the amount of revenue your business could bring in and the amount of revenue it actually brings in. The result is 'yield efficiency'.

One of the greatest benefits of yield management is the potential to maximize the ratio of recognized revenue and operating costs.

By offering the right product, at the right time, to the right consumer, at the right price, you have the ability to affect a purchase decision sooner and obtain the commitment of the consumer to visit. This added benefit delivers revenue earlier and provides a higher level of certainty for your team when forecasting operations such as staffing levels.

And when you get an early consumer commitment, you also reduce the threat of last-minute offers from your competitors, reduce financial uncertainty and establish a baseline revenue stream for your business.

THE FOUR Cs

The Cornell University Center for Hospitality Research is credited with a concept called The Four Cs of Yield Management. The Four Cs — Calendar, Clock, Capacity and Cost — are the tactics used to execute a successful yield management program.

CALENDAR

Use past data to predict future demand

When is demand for your product strongest? When is it weakest?

To plan any new yield management program, you must first forecast demand. Many attraction operators have a good idea of when they are busiest. Good operators understand their historical demand trends, use these trends to budget and forecast based on future reservations. Great operators, those identified as best-in-class, quickly adapt to actual demand when deviation occurs from historical trends and forecast.

By knowing the peaks and valleys in your ticket sales, and adapting to actual conditions, you can begin to smooth the demand pattern for your product.

CLOCK

Match the timing of the sale to the price the consumer is willing to pay

The participant's value perception will change over time, varying based on external factors such as marketing promotions, weather or the time of year, or personal factors, like the need to get something taken care of now. Because you're selling to many participants, each of whom is impacted by different factors at different times, your yield strategy needs to account for the aggregate trends in purchasing. This often takes the form of dynamic pricing, where pricing changes as demand changes across all consumers.

Industry leaders of dynamic pricing deploy quantity-driven deadlines, offering a first set of tickets at one rate and then adjusting the rate for the next set of tickets. As these purchases are occurring, you can adapt both pricing and inventory to meet demand, thereby improving yield. By communicating a limited supply of product at a particular price, the consumer is incented to **buy now**.

CAPACITY

Sell available capacity sooner and earn revenue faster

When firm capacity constraints exist, such as the number of seats in an auditorium, yield management attempts to minimize unsold inventory and maximize the value of the inventory that is sold. Attraction operators, while not always faced with such firm constraints, still have the same goal – ensuring any inventory that can be sold is in fact sold and at the maximum value.

By leveraging innovative technologies, you can create artificial capacity constraints and adopt rate tiers to maximize your yield efficiency.

COST

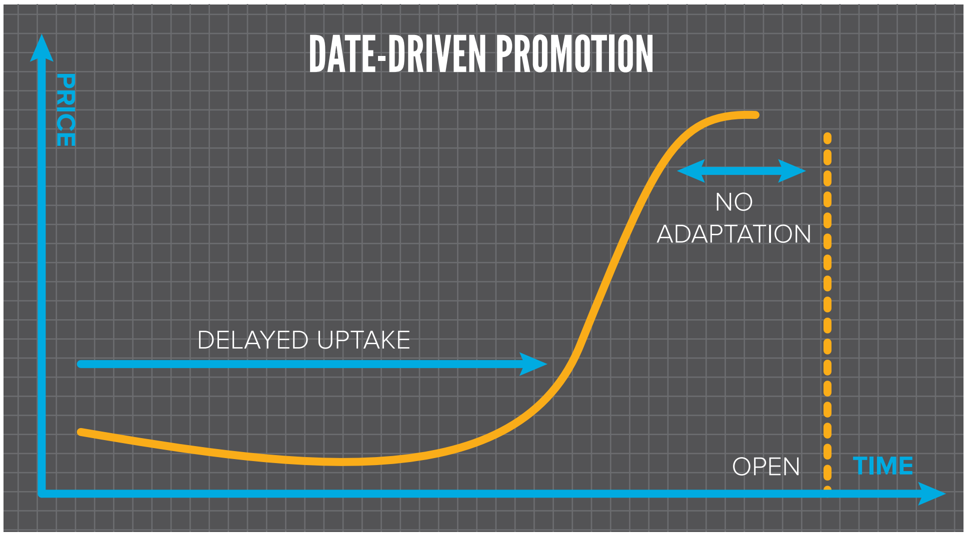
Set prices according to forecasted demand

Although a yield management strategy does involve adjustments in pricing, it is not a discount program – prices aren't discounted, they are adjusted to meet demand. A critical component to yield management is establishing a set of guidelines potential customers intuitively understand. These guidelines may take the form of 'rate fences' or 'pricing tiers', and are communicated to the consumer during the purchase process when they see "only 7 left at this price".

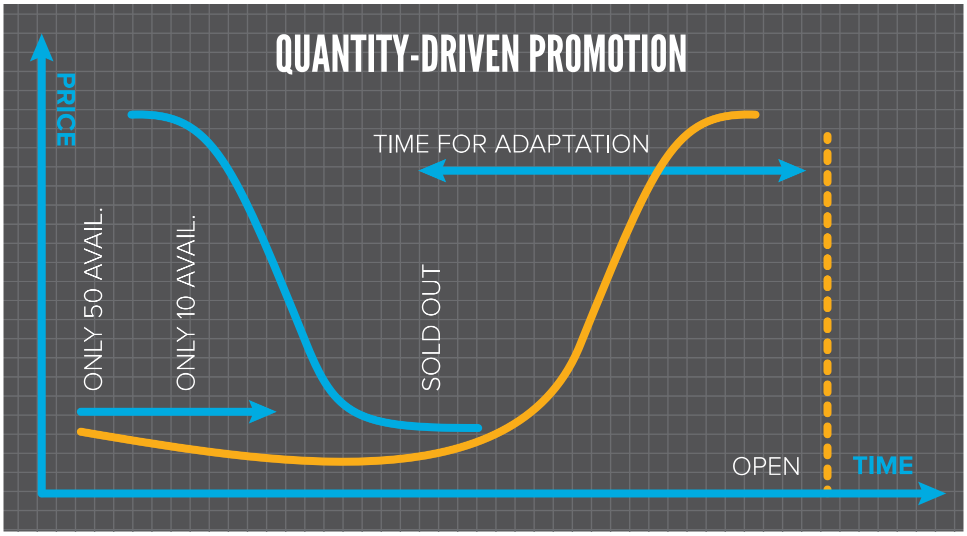
Setting multiple pricing tiers based on peak and non-peak times can help your business shift demand, capture consumer commitment sooner, and recognize revenue earlier. Consumers willing to visit during less busy times may benefit from a lower price, and management benefits from the revenue it may not have gained without the perceived discount.

HOW CAN YIELD MANAGEMENT WORK FOR PARKS AND ATTRACTIONS?

Historically, most attraction operators relied on date-driven promotions and pricing strategies. Either the price for admission is discounted for an early purchase or is only available through a certain date. Two key challenges exist with this approach. First, the only incentive offered is for the guest to wait until the specified date. Fully 75% of all sales in this strategy will occur in the last day or two of the promotion, understating demand until that time and preventing meaningful forecasting. Second, it has the added impact of negating your ability to adapt to the demand simply because there is too little time to implement a new strategy. For you, this means delayed cash flow and less ability to adapt promotions, packages and pricing to meet actual demand.



In contrast, there is the quantity-driven pricing strategy, which makes limited quantities of tickets available at different pricing tiers. With a quantity-driven pricing model, adoption rates can be as high as 85% in the first few days of a promotion. This strategy more effectively couples purchasing and consumer demand, providing greater insight into the value of the product. This higher rate of consumer commitment means earlier cash flow, the ability to better plan operationally, and to adapt product strategy to meet demand.



As an added benefit, because you know who is coming, you possess smart data, which means you can sell more to those visitors before they ever set foot in your attraction.

When a consumer buys a ticket or registers for an activity in advance, why not suggest other activities and services based on what that specific person might like? The widespread adoption of email, mobile devices, and social media have made it easier than ever to interact with your customers before during and after their visit, and to offer targeted and timely suggestions.

Using smart data, you also gain visibility into how visitors spend once they get to your attraction. Understanding more about your customers can help you find ways to increase revenue and yield.

YIELD MANAGEMENT ISN'T JUST FOR AIRLINE TICKETS ANYMORE

The economic conditions that make yield management ideal for airline tickets, the need to maximize revenue per available seat, also apply to theme parks, tourist attractions, zoos, aquariums, water parks and museums. It is becoming ever more important to operational success that each ticket sold maximizes the revenue of that participant. In fact, deployment of these strategies may be more effective at attractions because capacity constraints and the cost of additional sales are operational, and not physical, considerations.

An integrated and well-executed yield management approach can help your park or attraction gain a larger share of a consumer's discretionary income.

What could another $1.00 or $2.00 per customer mean for your organization? It could mean more capital investment, an investment in your workforce, or possibly more resources for community outreach.

By creating a mix of the right product, at the right time, to the right consumer, at the right price, you have the ability to maximize yield.

Learn more about how yield management can benefit your attraction:

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