FIRST OF A TWO-PART SERIES: NEW THINKING ON WHAT TO CHARGE AND WHY

PRICING CONCEPTS AND THE GOLF INSTRUCTOR, PART 1

By David Gould, *Staff Editor*

A spaceship lands in a cornfield and out steps a golf instructor from a faraway Earth-like planet. An upscale course nearby invites him to hang a shingle and start teaching. Our interplanetary pro is set to do business but he's unsure what rates to charge, so he figures he'll ask around. Having arrived here in 2018—not 50, 20 or even five years earlier—he's got a compelling question on his hands.

Technology has brought major change to pricing throughout modern economies—it's given the consumer an extensive rate-comparison advantage, but it's also sped up the journey from I-might-be-interested to a click that finalizes purchase and sends money on its way. The online selling of services, with social-media marketing as a catalyst, means you can vary your packaging and programming creatively and make it all understandable. The traditional shingle offered no space for such presentations, and even if it did, only someone standing in front of it would receive your message.

Interesting signals about pricing have emanated from the U.S. economy of late. It "roared into overdrive last month," said a *New York Times* article on the recent jobs report. Our "longest streak of job growth on record," reported the *Times*, "dropped the unemployment rate to 3.8 percent, its lowest level since early 2000." On the CNBC website an influential economist talked about the "virtuous circle" America now enjoys, in which "the labor market is strong, which supports consumption, which drives production, which in turn keeps the labor market strong." Another economist interviewed by CNBC said the national unemployment rate "could sink as low as 3 percent by the end of 2019," a downward move that would "bring it to levels last seen in 1953, the height of the economic boom after World War II." So, times are good.

We know that the tech factor in pricing has streamlined traditional shopping and buying, but it's gone much further, actually shifting how human brains sort out value and cost. The dynamic-pricing revolution in lodging, airfares and rides to the airport—or anywhere else—means we now run little algorithms in our heads about what we're getting (when we're getting it also matters) and what we're willing to pay. The students who pay you for golf coaching are getting very accustomed to pricing that's not set in stone.

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Knowing this, startups are looking to extend dynamic pricing into other

markets. A mobile app developer called Atom Tickets has tested it in cineplexes, seeking to leverage the astounding number of movie seats that go unoccupied each year—4 billion plus, reportedly. This form of time-shifted price-setting appears to skew mainly downward. In other words, if a cinema's top ticket price has been $12, the algorithm's main purpose would be filling out the house with seats priced at $9 then $8 then $7 and so on, descending as showtime gets closer.

A professor at the prestigious Wharton School, asked his view of the concept, wasn't keen on it. "We're used to paying lower prices for matinees and more on weekends," he noted, "but I don't see people willing to pay different prices for the same movie, offered at the same time, in the same location." A colleague chimed in with a second critique. "If you lower the price 10 minutes before the show starts, you will likely get the same number of people showing up for the movie."

Among Proponent Group members there's been modest curiosity about dynamic pricing for instruction, but no groundswell of interest. And that's the case even though golf tee times—the product next door, so to speak—have been priced dynamically on a widespread basis for years.

Supply and demand, all would agree, is a simple concept. Or perhaps not so much. There is at least one clear reason why golf lessons at peak times aren't being sold at changeable rates determined by sophisticated software, and it boils down to relationships. Airlines and hotel chains are relatively faceless, which keeps the personal aspect out of these transactions. For the teacher and student on the lesson tee that's not the case.

Golf instruction fits pretty nicely with a set of case studies the price gurus have been examining closely, through the relationship lens. They include Bruce Springsteen on Broadway, florists on Valentine's Day and Home Depot during hurricane season.

In 2017 Springsteen created a one-man show, opting to perform it in a Broadway theatre that holds just 975 people. Using a nearly scalper-proof ticketing process, he put the tickets on sale and priced them from $75 to $850. One sellout followed another and fans rejoiced to get a seat, but some tickets did show up on resale websites—for as much as $13,000 apiece. According to veterans of the concert business, this represented a stunning error on Springsteen's part, but a prominent economist disagreed. On the subject of pricing, Richard Thaler of the University of Chicago called it a mistake to use pricing policies "that will create moral outrage, even if that moral outrage seems stupid to economists."

Others agreed, convinced that undercharging to the extent he did was a sound business decision on Springsteen's part. It let him protect an immensely valuable asset—his audience's deep loyalty and trust.

Years ago, in a floral market quite different from today's, studies were made of flower shops around Valentine's Day revealing demand for roses roughly double what was available, sometimes more than double. Supply-demand indicated an opportunity to sell bouquets at extremely high prices. Some shops did so, which is why there were so many complaints about price-gouging back in the day. Increased production changed things, but even in the days of lesser supply many shops were known to underprice roses on February 14, versus what the market would bear. They did it in the name of positive customer relations throughout the rest of the year. Then there's Home Depot, which has earned a reputation for responding in swift, dramatic fashion to natural disasters like hurricanes—in ways that actually reduce profit margins for stores in close proximity to impacted areas. Again, this is to deepen trust and loyalty on the part of the customer.

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It's simple enough to tie these cases back to the golf instructor, but first we'll circle back to cineplexes and what one economist said about dynamically priced movie tickets. Not

to tell an expert his business, but a key point was missed in discussing filmgoer sensitivity to price, i.e., removal of rack rate from the value proposition. Airlines and hotels did it long ago, which is why no one knows the baseline cost of a plane trip from Dallas to Atlanta—it's not published anywhere. So, if movie theaters stopped openly posting a $12 set price for adults under 65 on weekends, resistance to pricing as it rose and fell (according to day of the week and hour of the day) would be considerably offset. And that's the psychology at work when tee-time resellers strongly advise courses to dump rack rates, which some of them have done.

The context of all this is price elasticity, to use the term of art. Consumers accept an increased price on a product or service, or they keep their wallets tucked away. It's likewise when a price goes down—they may buy more of a discounted item than they otherwise would. Then there's gasoline, milk, coffee and electricity, which cause complaints when their prices go up but enjoy relatively inelastic demand, maintaining sales volume even as price fluctuates.

Next month in Part 2 of this two-part series, we'll report to you on the latest pricing innovations embraced by (or at least tinkered with) by fitness studios, chiropractors, hair salons and sports teams. We'll also revisit non-traditional golf-instruction pricing concepts espoused by the likes of Dr. Rick Jensen, Will Robins, Ian James, a city-club organization called the Union League and some highly successful elite-junior academies. Certainly the biggest opportunity for higher pricing in golf instruction is associated with group sessions, but there are other openings, as well.

We began this story by describing a golf instructor from outer space, newly arrived on Earth. He was, of course, purely imaginary—dreamed up as a way to create a completely clean slate for a discussion of pricing. So, go ahead, imagine that you could start from the same premise. Based on what's going on in the world around you—and in the golf industry, too—you would have a business opportunity of considerable value and well worth delving deep into.

(*Read Part II in next month's members' newsletter.*) PG

THE TAKEAWAY: EMERGING IDEAS ABOUT PRICING AND VALUE

1) Your student is part of the consumer marketplace in which patterns and policies around the price of goods and services is in flux—golf instruction isn't necessarily "on an island" and untouched by these trends.

2) Seller-buyer relationships do vary. The more personal they are, the less automatic it is for pure supply-and-demand equations to dictate price.

3) Rack rate is being called into question throughout our economy. Can you imagine golf instruction dispensing with it?

4) Other types of professional services are rethinking what they charge and how they charge—their experiments bear watching.

5) Innovation in coaching and instruction programming goes hand in hand with innovative pricing.

6) Like many business practices, pricing is highly influenced by "the way we've always done things." Given no history and a completely blank slate, how would you go about valuing your skills and knowledge as a coach?