The Market

Section Objective:

- Understand the nature of competitive markets

MEASUREMENT

The importance of measuring performance cannot be over-emphasised. It is important to measure performance against both internal and external metrics and Key Performance Indicators (KPIs).

This measurement criterion ensures the team stay focused, on track and motivated with the same end goals in mind. An additional benefit of having consistent measures throughout the business is that the revenue culture will be continually strengthened. There are many revenue streams within a hotel, so it is important to engage as many departments as possible to ensure optimal hotel revenue and profit performance.

Useful measures:

- ADR - The overall Average Room Rate (ADR) for a hotel is calculated by dividing Total Rooms Revenue by the Rooms Occupied.
- Occupancy percentage - The overall Occupancy ratio for a hotel is calculated by dividing Rooms Occupied by Rooms Available. Complimentary rooms are not included in Rooms Occupied.
- RevPAR – Revenue per available room

- RevPOR – Revenue per occupied room
- GOPPAR – Gross Operating Profit per Room
- Competitive set - A group of other brands or providers offering a similar product or service to the same consumers.
- Market segment - An identifiable group sharing one or more characteristics
- Pace report - The rate of booking report highlighting busy and non-busy days in the booking cycle
- Rack room rate - The maximum advertised rate
- RevPASH - Revenue Per Available Seat Hour

THE COMPETITIVE MARKETPLACE

Revenue management practices need to take into account a wide range of external factors, such as the competitors, macro and micro economic impacts, industry trends and changing customer demographics. In this section we will be focusing on the impact of the competition and its integral role in revenue management strategy.

UNDERSTANDING THE POSITION IN THE MARKET

The benchmarking exercises are the foundation of developing a competitive pricing strategy. It is important that these exercises are carried out regularly, as the market is constantly changing. In addition, it is advisable to benchmark the hotel position using the following **Key Performance Indicators** (KPIs):

MPI - Market Penetration Index

How our Occupancy compares to our Market

FORMULA MPI = Hotel Occupancy / Market Occupancy

CALCULATION MPI = 62% / 64% = 0.97

When a hotel achieves more than 1, then it is receiving more than its fair share.

ARI - Average Rate Index

How our ADR (Average Daily Rate) compares to our Market

FORMULA ARI = Hotel ADR / Market ADR

CALCULATION ARI = £82.36 / £76.56 = 1.08

When a hotel achieves more than 1, then it is receiving more than its fair share.

RGI - Revenue Generation Index

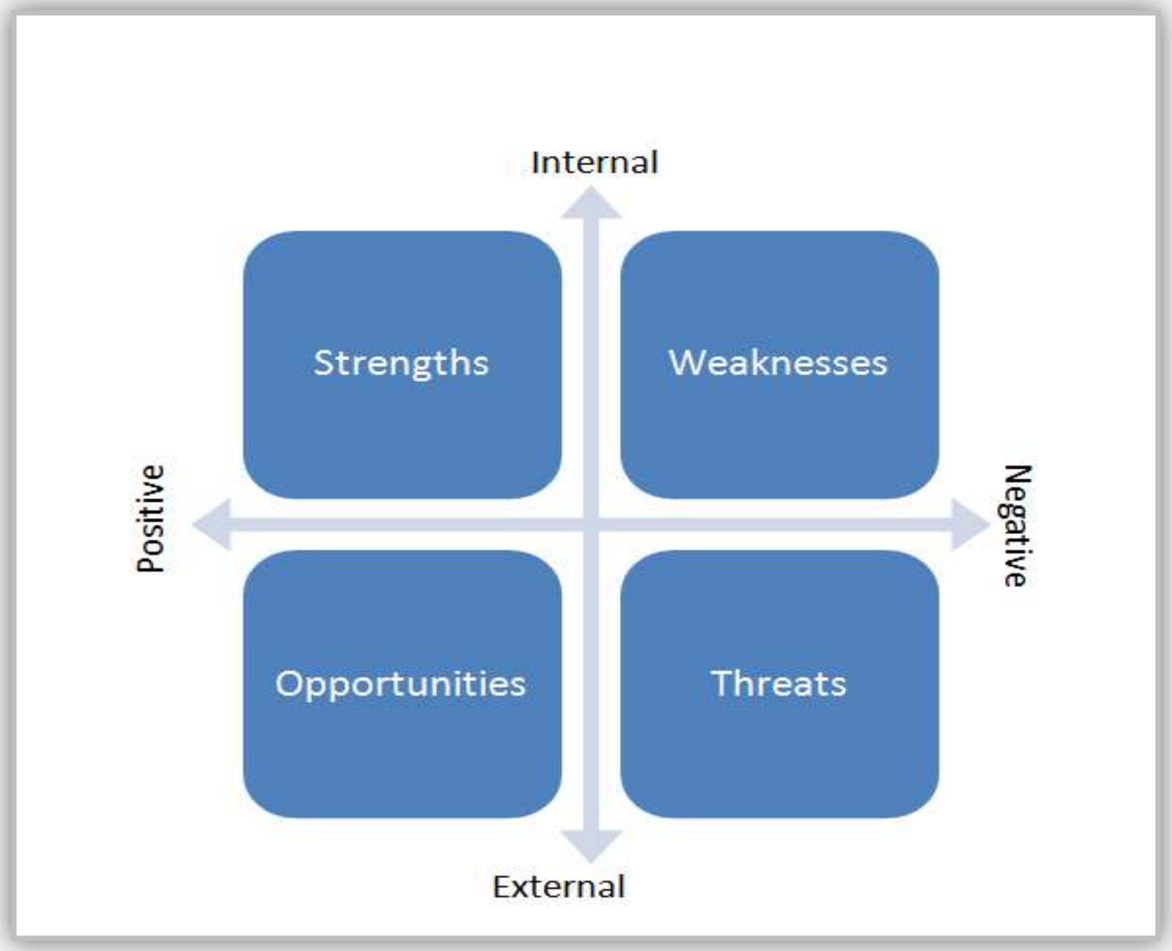
How our RevPAR compares to our Market

FORMULA RGI = Hotel RevPAR / Market RevPAR

CALCULATION RGI = £51.06 / £49.38 = 1.03

When a hotel achieves more than 1, then it is receiving more than its fair share

SWOT Analysis - The basic concept



Of the three KPIs, RGI is considered to be the most important, as it balances both Rate and Occupancy (in the same way that RevPAR balances ADR and Occupancy).

DETERMINING THE COMPETITIVE SET

A competitive set is defined by STR Global as a group of hotels by which a property can compare itself to the group's aggregate performance. Before a hotel can construct a strategic plan it is important that they first invest the time to truly understand the market in which they operate. If this critical first step is not completed, then the foundation upon which the future strategy is built may be fundamentally unsound.

COMPLETING A SWOT ANALYSIS

SWOT is a strategic planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using

Competitor Analysis - Stage 1

	Your Hotel	Competitor 1	Competitor 2
Star Rating	**3 Star**	**3 Star**	**4 Star**
Year Built	**2008**	**1846**	**1980**
Last Renovation	**N/A**	**2011**	**2002**
No of Rooms	**214**	**152**	**200**
Meeting Rooms	**4**	**6**	**8**
Restaurants	**1**	**1**	**2**
Room Service	**Yes 24 hrs**	**Yes 24 hrs**	**Yes 24 hrs**
Bars	**1**	**2**	**2**
Free WiFi	**Yes**	**Yes 24 hrs**	**Only in public areas**
Fitness/ Pool	**Fitness only**	**Fitness + Pool**	**No**
Leisure Facilities	**No**	**Yes Spa treatments**	**No**
Car Parking	**Yes £18 a day**	**Free**	**Free**

data from Fortune 500 companies. Identification of SWOTs is essential because subsequent steps in the process of planning

Competitor Analysis - Stage 2 (Example)

	Strengths	Weaknesses
Your Hotel	• Accessible from Road and Rail Hubs • Newest Built • Large Rooms • Staffing • Close to Attractions	• No Business centre • No Pool • Not Branded • Expensive Parking
Comp 1	• Accessible from Road and Rail Hubs • Recent refurb • Large Rooms • Free Parking • Pool • Spa Treatments • National Brand	• Older Building • Difficult road access
Comp 2	• 4 Star • Good meeting rooms • Free Parking • Choice of Dining • International Brand	• No pool • No leisure activities • Limited WiFi
	Opportunities	**Threats**
Your Hotel	• New Corporate Accounts • New RMS to be installed • New Loyalty Programme • Staffing	• Increased competition • Limited Brand profile
Comp 1		
Comp 2		

for achievement of the selected objective may be derived from the SWOT analysis.

First, the decision-makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

The SWOT analysis is often used in business to highlight and identify strengths, weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

Strengths: Characteristics of the business or team that give it an advantage over others in the industry.	Weaknesses: Characteristics that place the firm at a disadvantage relative to others.
Opportunities: External chances to make greater sales or profits in the environment.	Threats: External elements in the environment that could cause trouble for the business.

A SWOT is best completed in two stages. Stage one requires looking inwardly, and reviewing the strengths, opportunities, weaknesses and threats of the business. Stage two requires looking externally at competitors.

When completing the hotel's SWOT analysis, it is important to ensure that the thinking is like that of the customers. Try to ensure that this includes a range of viewpoints, including teams from several departments and both frequent and occasional guests.

When this has been completed and the key areas identified, these can then be transferred to a chart that will compare the businesses SWOTs to their competitors.

If the competitors vary by market segment, it may be a wise idea to complete a SWOT analysis by major market segment (e.g. one for Corporate, one for Leisure and one for Group). It is important to remember that different segments will have different needs from their hotel, and will place a different emphasis or value on the rated components.

When considering the weaknesses of the competition, it is important to think about the views of their customers. This can be done by using online travel review sites.

COMPLETING A PRICE : VALUE MATRIX

A Price Value Matrix is a very useful tool, allowing the ranking of the comparative value of the hotel (considering the combination of quality and price) against the competitors, thus establishing the value proposition.

The first step of completing a Price Value Matrix is to determine the relative quality of each of the selected competitors (by segment if required).

Determine the key factors that need to be assessed. These should be factors that customers rate as important. This may be a good opportunity to engage with customers and solicit feedback on these points.

Once rating criteria have been selected, each of the competitors will be rated against the hotel. The hotel always has a neutral rating of 0, and the competitors will be ranked comparatively against that, from -5 to +5. If it is considered that the competitor is equal to the hotel, they will receive a 0 on that section. In areas where they exceed the offering, the score will be positive, and in areas where they fall short of the offer, they will receive a negative score. Thus, if the competitor has a better location than the hotel, that hotel might receive a score of +3 in the Location category. As objectively as possible it is necessary to determine the extent to which competitor hotels fall short or exceed the base hotel.

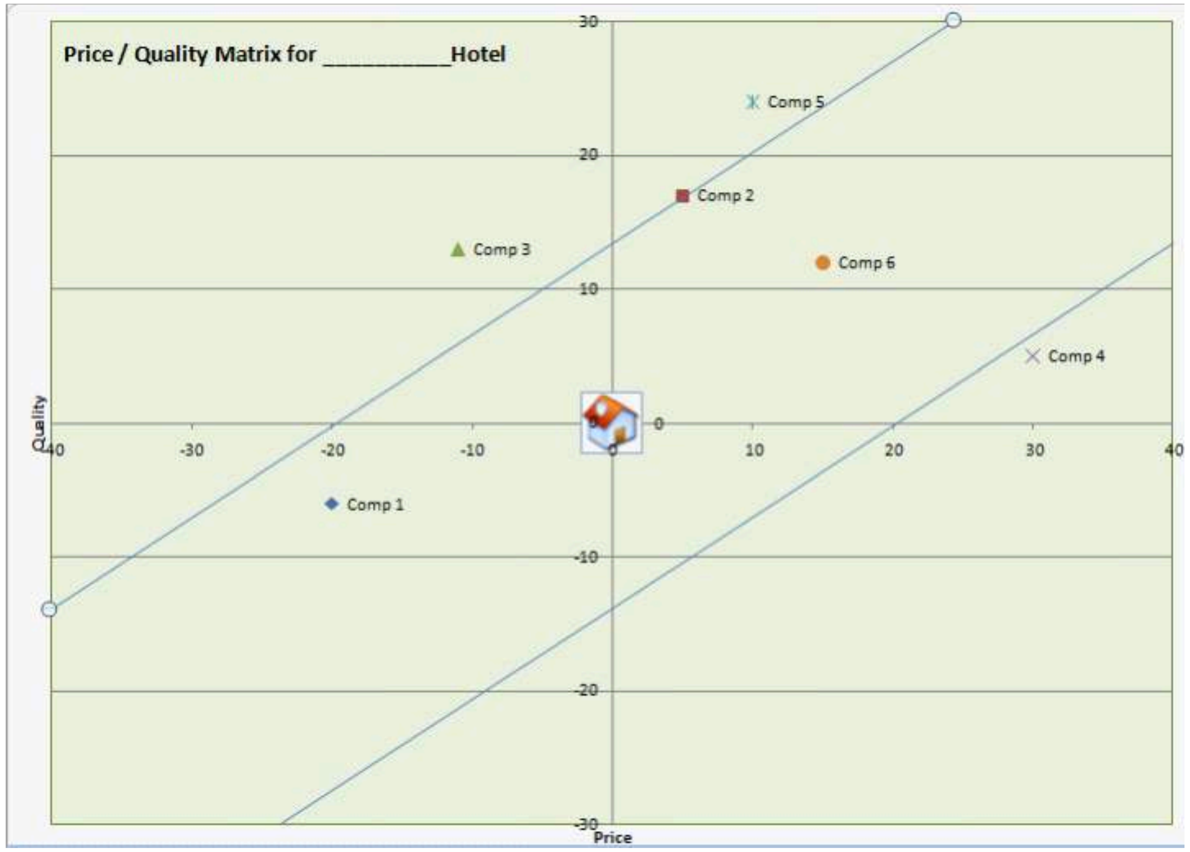
	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Star Rating	0	0	2	3	1	2
Location	-2	1	2	0	3	2
Sense of Arrival	1	3	0	2	5	1
Quality of Service	0	4	2	0	3	2
Restaurant Quality	1	3	2	-1	3	2
Restaurant Service	0	-1	-2	-2	3	-3
Breakfast Offering	0	5	4	0	2	3
Internet Price and Connection Speed	-4	-2	0	1	0	1
Leisure Facilities	-2	4	3	2	4	2
Total	-6	17	13	5	24	12

Price	190	215	199	240	220	225
Your Hotel	210	210	210	210	210	210
Price Positioning	-20	5	-11	30	10	15

Graph Data

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Your Hotel
Price	-20	5	-11	30	10	15	0
Quality	-6	17	13	5	24	12	0

Once the product offer is rated, each of the comparative values must be plotted on a matrix against the price offered (use the most commonly available rate, for the commonly available room type).



Source: Total Revenue Solutions Ltd

How to read the matrix:

Top Left Quadrant:	Higher Price, Lower Quality
Top Right Quadrant:	Higher Price, Higher Quality
Lower Left Quadrant:	Lower Price, Lower Quality
Lower Right Quadrant:	Lower Price, Higher Quality

Any hotel that falls within the parallel lines can be considered primary competitors from a price:quality perspective.

As the 'closest' competitors, these are the ones that need to be watched the most carefully, as any changes in their pricing strategy could have an immediate impact on business (either positively or negatively). The outlying competitors could be deemed as secondary or tertiary competitors.

DISTRIBUTION

The term 'distribution' refers to how hotels sell their inventory and the various channels that a customer can use to book. Distribution channels are now commonly understood to be electronic channels, but this does overlook the more traditional channels of hotel direct voice channels and GDS.

Hotels often use a variety of channels in order to reach a wider market share and increase their competitive reach.

When considering the use of electronic distribution channels, hotels must also consider the cost of sale, and therefore the net revenue impact.

IMPROVED DISTRIBUTION STRATEGIES

It is important that the communication to each customer segment is through the appropriate channels and with the right message. Accurate segmentation will ensure that the hotel message does not become confused or distorted, and will ensure over or under messaging does not occur.

Review Questions: The Market

Question 1 of 4

All departments within a hotel can have a part to play in revenue management.

✓ **A.** True

◯ **B.** False

Check Answer