

# CHAPTER 4

## UNDERSTANDING THE MARKET

### KEY LEARNING OBJECTIVES:

To understand how external and internal influencers, market trends, product positioning, demand indicators and competition influence the revenue management strategy and plan;

To enhance the ability to identify various types of benchmarking and why they are important;

To understand how to create a benchmarking tool for your hotel;

To understand how to complete a valuable S.W.O.T. analysis;

To understand how a hotel's market position relates to right pricing.

**Understanding the basics of economics** and how it applies to revenue management in the hotel industry is a prerequisite to learning about the marketplace and how it impacts a hotel's revenue strategy. Understanding the marketplace is the basic starting point for any revenue management effort and is always a very important part of a hotel's business plan.

This section explores the factors that influence market conditions and what every hotelier needs to know in order to properly understand their marketplace.

### External and Internal Influencers

Every hotel should undertake both an external and an internal analysis on an annual basis.

An external analysis provides hoteliers with a view of what is happening within the marketplace. This includes consumer trends (demand) and competitors (supply). By understanding the behaviors of both consumers and competitors, a hotel or hotel company can better position themselves to be prepared to meet the needs of and overcome the challenges specific to their marketplace.

Questions to ask during an external analysis include:

1. Is there any new product that has entered the market since the last analysis that can be considered competition?
2. When was each competitor's most recent renovation?
3. Is there construction nearby any of my competitors?
4. Have any of my competitors switched flags or management companies since the last analysis? What benefits have been added or lost with this change such as distribution partners, group sales resources and central reservation contribution?

5. Have any of my competitors implemented revenue management systems or changed distribution partners since the last analysis?
6. What are the reviews my competitors are receiving on social media sites?
7. Are there any significant city wide events that are driving demand? If so, what is the volume of this demand and what dates may be impacted?
8. Have any large corporations moved into or out of our market during the past year? For example, what office sites may now be vacant or are newly occupied? What future economic developments or redevelopments are planned? What is their timing?
9. Have any large companies in the market been acquired recently?
10. Is there any significant change to how consumers are traveling to the market this year such as driving versus flying?

An internal analysis provides hoteliers with an understanding of what is happening within their own hotel or company that can influence their position within the marketplace. This means taking a close realistic look at what is happening within the hotel such as understanding service standards and the quality of the product.

Questions to ask on an internal analysis include:

1. When was the hotel's most recent renovation?
2. Is the product in need of improvement? If so, in what areas?
3. Is our service in need of improvement? If so, in what areas?
4. Are any significant closures occurring this year (i.e., pool, restaurant, etc.)?
5. Is there construction nearby?
6. Do we have adequate meeting space to attract the right groups?
7. Do we have enough sleeping rooms to accompany our meeting space?



## Market Trends

After completing an analysis of both external and internal influencers, the revenue director should turn to identifying the market trends for their specific market. This requires taking a look at consumer behaviors, competitive trends and pricing trends not only within their specific market but also throughout the industry in general as well as other markets.

For example, if the economy is struggling, corporations often tend to stay closer to home for conferences and meetings. Therefore, a hotel may have to make a shift in their sales efforts to focus on different organizations than they have in the past in order to achieve their group and transient corporate sales goals. Additionally, other markets may become competition because they have recently added a new attraction, convention center or high tech conference center.

There are many companies that offer business intelligence reports that assist hoteliers in understanding what is happening in the market. For a listing of companies that provide such information and reports refer to page 132.

## Demand Indicators

Once market trends have been identified, demand indicators need to be considered. Demand indicators are factors such as behaviors or events that will have a direct impact—both positive and negative—on the demand in a marketplace and/or for a hotel. Understanding demand indicators, such as consumer confidence, will greatly impact a hotel's revenue management success.

Every marketplace has demand generators that are applicable to many or all markets, as well as ones which are unique to that market. It is important to understand both.

There can be date specific demand generators that will create demand only for a set of specific dates. An example of this is a citywide convention. There can also be an ongoing attraction that drives business to one hotel such

as a state-of-the-art luxury spa at a four star property, or a large convention center located next door to a hotel.

An example of a demand generator that is applicable to multiple markets is the Travel Promotion Act announced on March 8, 2010. This act is expected to boost inbound travel to U.S. and stimulate local economies across the board.

Conversely it is necessary to know the generators that may cause demand to be low such as cultural, regional or religious holidays, and their impact on normal business patterns. These types of events often change their dates from year to year and can have a negative impact on demand. Thus, each year the hotel must be aware of the dates of these events and must adjust the demand forecast accordingly.

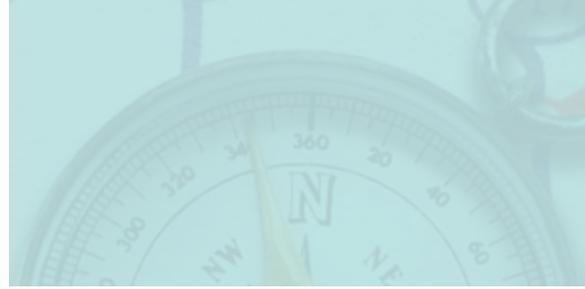
Regardless of whether they are negative or positive, it is important for hotel revenue executives to know and understand the potential impact of the demand generators for their market, their specific hotel, and for their competition.

## Competition

Identifying the appropriate competitive set applies to all companies throughout all industries. For some it is easier to identify who their competitors are and for others it can be a bit more complicated.

Hoteliers have the challenge of identifying the most appropriate competition that is the best fit based on the products, services and customer desires and needs.

Identifying the right competitive set is an important part of the overall revenue management process. It is also integral to identifying the hotel's market position. Those who misalign themselves will find ongoing challenges throughout their revenue management process—especially with the price-value relationship in the eyes of the consumer. Benchmarking is necessary to define the competitive landscape.



### Competitive Benchmarking

Competitive benchmarking is an objective comparison of one hotel to others. This helps hoteliers identify potential strategies to implement in order to improve or maintain their competitive positioning.

There are three types of benchmarking that hotels need to consider. They must be completed in the order listed below:

1.	Strategic Benchmarking—Strengths, Weaknesses, Opportunities, and Threats (S.W.O.T)	This includes a thorough product analysis of the subject hotel and its competitors.
2.	Process Benchmarking	This includes an understanding of the processes and participation of both the subject hotel and its competitors. Examples: <ul style="list-style-type: none"> <li>• With which 3<sup>rd</sup> party sites do competitors participate?</li> <li>• Does the competitor have on-site reservations or are they centralized?</li> </ul>
3.	Rate—Value Benchmarking	This includes an analysis of rate structure for the subject hotel and its competitors. This can only be done after the Strategic Benchmarking analysis has taken place so there is a good understanding of the product offerings.

An example of each one, along with specific instructions is provided below to assist with the process of completing the task of Competitive Benchmarking.

### Strategic Benchmarking

This is the first of the three benchmarks that must be created for each hotel.

A Strategic or S.W.O.T. analysis is a tool used to evaluate the hotel's Strengths, Weaknesses, Opportunities

and Threats. In a S.W.O.T. analysis the strengths and weaknesses of a hotel are compared to those of its competitive set. Opportunities and threats are the external factors that may influence the hotel's business.

A S.W.O.T analysis can be organized in several ways but one easy form is a simple comparison chart. This chart can simply contain columns for the subject hotel and for each hotel in its competitive set. Initially, the information included is general information about the hotels: the year it was built, number of rooms and suites, number and type of restaurants, total number and size of meeting rooms, exercise facilities, availability of business center and other services, and shops on premises. The rows below the general information section are for the strengths, weaknesses, opportunities and threats.

Use this example for format and ideas to create a strategic benchmark for the subject hotel. Fill in the hotel's name in the first column (i.e.: replace "Hotel A") and then do the same for each of its competitors. Columns and rows can be added as needed. Adjust each of the attributes according to what is relevant for the area and the hotel.

First, complete the general information for all hotels. This information should be easily available through competitors' Web sites, brochures, meeting planner kits or by simply calling the hotels directly.

Next, compile a list of strengths and weaknesses of the subject hotel. This can be achieved through brainstorming sessions with teams comprised of employees from all levels and departments. Any employee who receives input from guests about their likes and dislikes of the hotel can make a valuable contribution to this list. The result of these brainstorming sessions will likely be a long list that contains some vague items. Avoiding any gray areas or vague terms, condense it into a short list of more specific and realistic strengths and weaknesses, and put those on the comparison chart.

Completing the chart with the competitors' strengths and weaknesses will be the next step. Start by comparing the strengths and weaknesses of the competitor hotels. Always analyze competitive hotels in relation to one another so if one of a competitor's strengths is cited as a new guest room product due to a recent complete room renovation, make sure the year and scope of the most recent renovation at competitive hotels is listed as well. If poor visibility of the subject hotel from street level is one of its weaknesses, ensure that the visibility of the other hotels is evaluated as well.



Additional competitor strengths and weaknesses will be more difficult to find and may involve these and other sources:

- Personal experience of staff through site inspections, hotel stays, being with former employees or talking with friends;
- Feedback from customers who have also used competitor's hotels;
- Complaints from guests;
- Guest reviews posted on Web sites like Expedia, Orbitz or Travelocity;
- Rate comparison shopping.

Opportunities and threats are mostly external factors that will affect business at the subject hotel. They can be local, only affecting one city, or more regional, national or global factors affecting broader areas. Often they will affect all hotels in the same way. If a city raises its tax on hotel stays all hotels in the city may lose some competitive edge to hotels in other cities.

Sometimes opportunities and threats will affect hotels differently. If the subject hotel gets a much larger share of visitors from one specific geographic region than its competitors do, any positive economic development in that region could be a better opportunity for that hotel than its competitive set.

Other opportunities could be:

- New market entrants such as geographical additions or a new type of industry (i.e.: pharmaceutical);
- New alliances or mergers;
- Markets lost by weak hotels, those that closed or were converted to another use;
- Shifting market share from a less to a more profitable segment;
- New business or industry trends.

Other examples of threats are:

- A new hotel opening or one that greatly improved its product;
- Price wars with competing hotels;
- A competitor offering a new or greatly superior service or product;
- A competitor gaining better access to a distribution channel through a new alliance or brand affiliation;
- Technological innovation by a competitor;
- Access by consumers to a supply of condo hotels, time shares and home rentals;
- Alternatives for leisure dollar spending, such as cruises and adventure vacations;
- Competitor providing more state-of-the-art meeting space.

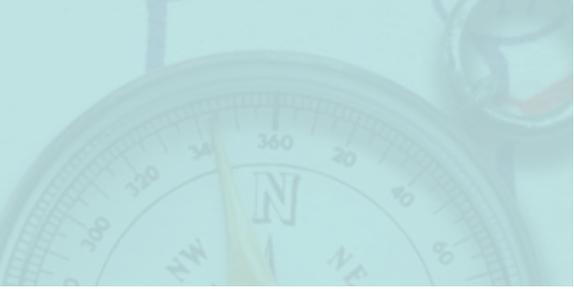
Depending on the strengths and weaknesses identified, any change in external business conditions has the potential to turn into an opportunity or a threat.

The following is an example of a S.W.O.T. analysis.



## S.W.O.T Example

	HOTEL A	HOTEL B	HOTEL C
Year hotel built / last full room renovation	1972 / 2002	2003/ n/a	1984 / 2005
Number of rooms/suites	315	403	298
Number of meeting rooms	14/11 (flexible)	12	10
Meeting room square footage	21,000 / Ballroom 5,000	17,000/Grand Ballroom 6,000	12,000 / Palace Room 3,000
Restaurants and capacity	Prince of Wales / 100 / breakfast, lunch & dinner	Oak Terrace / 130 / breakfast / lunch	Avenue One / 90, breakfast, lunch, dinner
	Limehouse Pub / 50 / bar, dinner	The Camelia House / 60 / fine dining	The Lantern Room / 30 / bar, appetizers in the evening
	24 hour room service	24 hour room service	24 hour room service
Other facilities	Exercise room, small business center	Spa with pool and fitness room, Business Center	Exercise room, discounted access to spa next door, business center
Parking	Valet parking in nearby garages	Valet parking in own garage	Valet parking in nearby garages
STRENGTHS	High name recognition within the city	Chain affiliation with access to largest loyalty reward program,	New product, state-of-the-art equipment in both guest rooms and meeting space
	Most flexible meeting space	Large guestrooms / bathrooms / unobstructed views	Very popular Bar
	Good location for leisure guests	Parking in own garage	Next door access to spa
	Experienced banquet and sales team	Spa with pool	Largest guest rooms/bathrooms
	Only guest rooms with lake view	Fine dining restaurant	Good location for both leisure and business
	Easy access from street, lobby/bar visible from outside	24h business center	
WEAKNESSES	Guest rooms need renovation	Confusing meeting room setup on 3 different levels	Chain / brand name still not well known in U.S.
	Small bathrooms	Change of ownership last year resulted in high staff turnover, especially in sales	Obstructed views on 3 sides
	Lack of brand affiliation / name recognition outside of the city	Low visibility from street level due to side entrance	Inexperienced staff
	Valet parking in nearby garages often causes long waits	Perceived as too expensive, especially for meetings	Limited meeting space
	No spa or pool	Location not ideal for both leisure and business	Lobby / front desk not on street level
OPPORTUNITIES	Decision to drastically raise prices for SMERF segment lowered group base and should open up more opportunities to take high rated business over high demand dates and city wide conventions	Expected increase in international travel will favor hotels with international presence / brand recognition	If merger talks with a large U.S. chain succeed it would give them a much larger guest base and better name recognition and distribution channels
	New two way interface between PMS and CRS should greatly increase guest satisfaction, decrease reservation labor costs	Newly installed CRM system is now operating. This should further help the current strong marketing and brand position	With staff gaining more experience they should be able to better sell their superior product and location and become a stronger competitor
	City to host the largest number of conventions since 1998	City to host the largest number of conventions since 1998	City to host the largest number of conventions since 1998
THREATS	Construction of a new high rise next to the hotel will increase traffic congestion and valet parking problems, noise complaints	Large number of low rate airline crew contracts will work against them in the next year with a lot more city-wide compression	New hotel of similar size and style will open in March only 2 blocks away and will compete for the same market
	Tentatively planned start of room renovation in October—while necessary—would greatly decrease results in Q4; some of the biggest conventions will take place during that time	Biggest Corporate Account will have no new store openings next year (after 7 last year) which will greatly reduce their room night production	Might lose several of their key corporate accounts following intense price competition with hotel A



### Process Benchmarking

With competitive benchmarking, part of understanding the competition includes understanding their processes and various areas of participation. It is important for hoteliers to ensure they have a good understanding of the answers to the following questions for each of the properties within their competitive set.

The approach to identifying the answers to these questions will vary. It may be as simple as calling the hotel or asking a friend or colleague. But other answers may best be found by doing research online.

Keep in mind this information can change over time. Therefore, collecting this information will be an ongoing process. Be sure that as new information is identified, all revenue team members are kept informed.

With which third party sites does the competitor work?
What is the cancellation policy on the competitor's best available rate on their site?
Do they have reservations on property or are they centralized?
What is the comfort and knowledge level of the agents in terms of their selling skills?
Are they able to effectively and comfortably describe product knowledge?
How many room types do they have? What are their room types?
Do they show the lowest room types on their site first?
Do they have a revenue manager?
To whom does he/she/they report?
What kind of a strategic focus do they have?
How sophisticated are they?
Do they use an automated revenue management system?
Do they differentiate between weekdays and weekends with respect to rates?
List the hotels in the order from highest rates to lowest rates. Where do you want to position your hotel's rates on this list and why?
Do they identify you as part of their competitive set on their intelligence reports?

As with the S.W.O.T. analysis, this information can be compiled by using a variety of sources including using a company with expertise in business intelligence (for a list of companies that offer this service refer to page 132), reviewing competitive Web sites, online searches and so on.

### Rate-Value Benchmarking

Similar to competitive benchmarking, rate-value benchmarking allows the hotelier to rank their hotel against the competition. This provides an opportunity to perform a qualitative comparison by identifying specific attributes that are relative and ranking each of them.

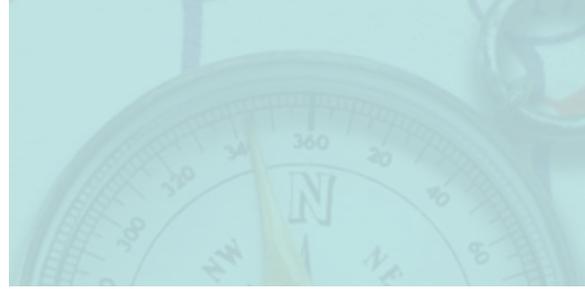
The goal of this exercise is to ensure the competitors identified by the revenue team are competitive with the subject hotel and to identify the areas in which they are competitive. This is done by seeing if all are within a reasonable ranking compared to the subject hotel.

This is important because it allows the revenue team to ensure it has identified the specific attributes a competitor has that makes it a competitor. Some competitors may have attributes that their hotel does not. In those cases, that attribute may keep the hotel from competing with them in a certain market segment. However it is important to determine whether or not this should keep the team from identifying them as a competitor all together. For example, a hotel that has 35,000 square feet of banquet space compared to the subject hotel's 15,000 square feet may keep them from being a competitor in some parts of the convention segment, but not in the leisure segment.

Once the chart for rate-value benchmarking has been created, proceed with making a comparison of rates and market share by the use of various business intelligence reports (see page 132 for a listing of companies offering these products and services).

Review the intelligence report(s) to identify the rates offered by competitors. In this process you are trying to identify significant variances between the subject hotel's rates and those of its competitors. For example, if a competitor that ranked significantly higher than the subject hotel on the chart is offering significantly lower rates in a specific market segment such as corporate or qualified rate, this needs to be watched carefully. That hotel may be implementing a revenue strategy that is focused on trying to steal market share.

Conversely, if you find the subject hotel's rates are significantly lower than the competitor's, and yet it ranks higher on the comparison chart, a review of the rate structure may be in order. However, it is important that the revenue team does further research on this. Speak with all members who can give feedback to identify their perspectives and collect information that they receive directly from customers. For example, speak with the front desk and reservation staff to obtain their comments. Collect as much information as possible, involve all



revenue team members and make a collective decision as to whether or not a change in rate structure is needed.

Use the market intelligence reports on a regular basis to ensure you are optimizing revenues and positioning the hotel properly. For example, some of the reports provide hotels with trend statistics including market share, ADR

index and RevPAR index, Occupancy index, ADR index and RevPAR index. The index balance is an indicator of whether or not the hotel has played the market conditions optimally. In general, a good point of reference when reading this report is to aim to keep the occupancy and rate indexes within 10 points of one another.

### Chart Example

	SUBJECT HOTEL		COMPETITOR #1		COMPETITOR #2	
	Hotel Score	Weighted Score	Hotel Score	Weighted Score	Hotel Score	Weighted Score
<b>Location</b> weight: 5	5	25	3	15	1	5
<b>Curb Appeal</b> weight: 2	3	6	5	10	1	2
<b>Quality of Service</b> weight: 5	5	25	3	25	5	25
<b>Quality of F&amp;B</b> weight: 3	3	9	5	15	3	9
<b>On-site Restaurant</b> weight: 3	3	9	3	9	1	3
<b>On-site Room Service</b> weight: 4	1	4	3	12	1	4
<b>Bell Service</b> weight: 3	1	3	3	9	1	3
<b>Meeting Space</b> weight: 2	5	10	3	6	5	10
<b>Total Score</b>	<b>26</b>	<b>91</b>	<b>28</b>	<b>101</b>	<b>18</b>	<b>61</b>

Key: 5=excellent, 3=good, 1=poor/does not exist



This example includes a “weight” assigned to each of the different items before ranking them. For example, quality of service has a “5” weight and curb appeal has a “2”. This means that quality of service is extremely important (or weighted heavily) but curb appeal is not as important (or weighted as heavily).

Some properties may find that some items will weigh heavier for this comparison and may want to use a weighting system to accommodate this. However, it is extremely important to note that the weighting system must be assigned as it relates to the importance of the consumer.

### Market Position

Once the benchmarking exercise is completed, hoteliers then have the ability to show the unique differences between their products and services compared to the market’s offerings. This differentiation allows hotels to position themselves favorably in comparison to competitors.

When a hotel has a solid understanding of its positioning in terms of products and services compared to its competitive set, it can then properly position pricing. Getting the price-value position of the hotel correct is fundamental to optimal market positioning. Those that can find the price that works for the hotel and is a good perceived value for the customer will find success.

### Understanding Market Position

Identifying a hotel’s appropriate market position is an important part of the overall process. In order to identify the appropriate market position, all of the benchmarking exercises should be completed. The rate-value benchmarking process is especially useful in understanding a hotel’s market position.

In addition to creating an internal tool, hoteliers need to be sure they research and take advantage of the appropriate market intelligence tools provided by third-party vendors. Hoteliers need to identify which companies and reports meet their needs and provide them with the most appropriate information. A list of vendors that provide business intelligence reports can be found on page 132.

There are occasions when a hotel must be repositioned in its market. This includes times when the product has been upgraded and when the product is getting tired but there are not capital funds available for a renovation. It is important that a hotel is repositioned at the appropriate time or lost revenue and opportunity could result.

### Maximizing Market Position

Once a hotel is sure that the appropriate competitive set has been determined and that the hotel is appropriately aligned within the competitive set, the next step is to ensure the hotel maximizes its market position to allow for optimal and appropriate pricing.

The following are recommendations:

- When adjusting rates, the market position must be considered. Rates should never fluctuate above or below a hotel’s market position;
- Suitable inventory controls should be utilized to ensure the appropriate product is available at the right price at the right time in the current market;
- Hotels can provide value-added pricing to incentivize consumers to book their product rather than the lowest priced product in their competitive set;
- Rate parity and integrity are fundamental to maximizing a hotel’s market position.

#### KEY REVIEW QUESTIONS

What are the factors that influence market conditions?

What are some questions to be asked during an external review?

What are some questions to be asked during an internal review?

What are the three types of competitive benchmarking that should be done for each hotel? List in the order in which they need to be completed.

How does a hotel ensure that they are appropriately positioned within a market?

What can you do to get your hotel out of a market that is in a downward spiral?

*The following is a case study provided by a boutique hotel in San Diego, California, USA. This hotel needed to redefine their competitive set areas as well as other processes. They were generous enough to share the process and results in this publication.*



## CASE STUDY

### Understanding the Market by a Boutique Hotel

#### THE SITUATION

With an eye to improving RevPAR, a 150 room San Diego boutique hotel catering to the leisure market instituted a new revenue manager position. In addition to implementing selling strategies, pricing and group evaluations to name just a few, the new revenue manager performed a competitive set analysis.

While hotel management had previously been participating in STAR reports, they were unfamiliar with how to set up a proper competitive set. Having the competitive set identified correctly is one of the keys to utilizing STAR reports successfully.

By subscribing to the segmented portion of the STAR report, the hotel can use the report to gauge the amount of Transient, Group, and Contract business that is in the hotel's market and also to determine the percentage of the market the hotel is achieving. In a nutshell, the report indicates whether or not the hotel is getting its fair share of available business.

This particular hotel's competitive set was defined as standard corporate hotels with primarily Sunday through Thursday demand and very little leisure business on the weekends. This did not mirror the business at the hotel at all. Therefore, the hotel's RevPAR Index was very low and did not give them an accurate picture of the share of the market they were actually achieving. They were comparing themselves to a completely different market, essentially comparing apples to oranges.

#### THE IMPLEMENTED SOLUTION

The first step in determining how the property fit into its immediate market was to visit and analyze the properties in its area and in its market. The hotel used a system that is commonly used in this process where the hotel considered themselves the baseline and they compared their hotel, in several predefined categories, to all of the other hotels visited. Categories compared included:

- Amount of meeting space
- Rooms
- Overall feel of the hotel
- Date last renovated
- Amenities
- Frequent stay program, and more

The hotel then graded each property in each category with their hotel baseline being zero (0). If the visited property's rooms were slightly better than their property's rooms they would score a +1. If they were significantly better than they would score a +2 and vice versa. Once they visited all of the properties and evaluated them in comparison to their property, they were ready to sit down and determine their correct competitive set. STR has guidelines for setting up a competitive set such as maximum of 35% of total inventory in identified competitive set. This guideline serves to protect the integrity of the data.

#### HOW RESULTS WERE MEASURED

The hotel's team decided on a competitive set that fairly represented their market with properties that scored both above and below their hotel. The information was submitted to STR and they received their first set of reports that showed a more accurate picture of business in their market. The hotel's RevPAR Index was now much more valuable, giving them a clearer picture of business in the leisure market and how much they were capturing. The information was now very useful in targeting transient vs. group segments as well as in rating opportunities. The hotel was now even able to use the STAR report to compare results by day of week.

Now the STAR report depicted an actual picture of how the property was doing against comparable, similar market type properties. This information was able to be used to help determine better selling strategies in order to increase business, rates and RevPAR Index. It also allowed them to drill down and target specifics that they incorporated into their strategies which ultimately made the hotel much more successful than it had been in the past.

#### SPECIFIC RESULTS

With the competitive set now accurate, the hotel was able to achieve a RevPAR Index of over 100% which had never before been seen. In truth, they saw as much as 125% meaning not only were they getting their fair share of the business, they were getting 25% more than their fair share!

# INSIDE THE INDUSTRY

“ As a revenue management educational tool, this book provides a strong foundation in principles and practices, and explores cutting-edge revenue management strategies and tactics. From the novice to the expert, all audiences will gain a new found understanding of revenue management. Consider this book as a resource to develop, support, and enhance your revenue management training programs. ”

—Warren T. Jahn, Jr., Ph.D.,  
Manager,  
Revenue Systems Training AMER, IHG