Who is YOUR COMPETITION?

Excellent revenue management requires a mastery of two variables: external competition and internal booking pace. Every few years, it is a good idea to take a fresh look at the competition, to quickly identify your enemies and set your rate strategies to achieve your primary goal, a positive RevPAR index. The past few years have not been business as usual, so it may be time to take a broader look at your competitive audit.

A Harvard expert on the competive strategy, Michael Porter points out that all industries face not one, but five competitive forces, four more than simply the direct competitors (like the hotel across the street). The four other competitive forces may not immediately come to mind; but, like your direct competitors, they all work together to diminish your net profitability. The four subtle competitive forces are: new entrants, the bargaining power of customers, the bargaining power of suppliers, and substitute products. Monitoring how these forces are aligned against your property and using sound strategies can limit their detrimental effects.

New Entrants

We have seen many new hospitality approaches emerge as large chains seek to expand offerings, fill out product lines and appeal to increasingly segmented markets and niches. Products like W, Hyatt Place, and Marriott Edition are carving niches out of markets that used to be open to broader brands. If you set your strategies to compete with the current lineup, you may be obsolete when new entrants with new ideas better serve your current guests. The recent economic downturn has caused some customer segments to make some difficult choices and many have left the full-service sector in favor of limited service alternatives with a shorter but more relevant list of amenities such as free Wi-Fi, flat screens, iPod connectors and a pantry. This has had a dramatic effect on the demand for 24-hour room service and in-room movies.

Another aspect of new entrants is new communications channels used by current competitors. How you keep up with social media trends may be difficult as this area is still very fragmented and clear market leaders have not yet emerged. Don't bet the farm on any one social media effort until bookings there start to represent real money, and keep a low cost involvement so you do not have to start from scratch when it becomes a primary booking channel.

Substitute Products

In leisure hotels, this might take the form of pleasure cruises or even camping trips. Many times these forces seem so remote that they do not justify a mention in your completive audit, but failure to review them periodically can prove fatal. These competitive forces are much harder to identify, much less quantify, but a sharp eye on your advance bookings and social media feedback can usually give early warning of emerging hotspots and whether they are viewed a substitute for your destination. Convention bureau surveys (or simply asking your guests which other destinations they consider) can monitor these hard to identify substitutes. When they do emerge, you must first take an honest look at how your destination and property stack up and adjust your marketing mix and messaging to focus on the features, benefits and advantages of your property.

Closely aligned with substitute products are complementary products. At first, complementary products, like airlines, appear to be allies. However, a fundamental shift in airline scheduling strategies took a large percentage of airline seats out of the market and choked off the customer flow. While you cannot control the airlines, you need to have alternate plans ready. As your complementary products deal with their internal issues, they can very quickly become a negative competitive force.

Supplier Bargaining Power

A third competitive force is a very unlikely suspect, your suppliers–the people from whom you buy. They don't compete directly with you, but they influence your ability to compete. For example, if your reservation service is outsourced, you need to convey to the provider the need to compete on conversion rates, services levels and costs per call if you both are going to survive. Similarly, it is a good idea to keep an open dialogue on your competitive posture with your employees and unions. You cannot provide job security or growth, if you are not keeping up with your competition in labor rates and work rules.

Customer Bargaining Power

The fourth competitive force is the customer. A good place to start here is distribution channel partners. If commissions and mark-ups are higher for you than your competition, then you are at a competitive disadvantage. It is essential to work with your channel partners to offset this cost disadvantage. It is a difficult landscape because the major OTAs demand rate parity with your Website (and with each other), but none of them promise mark-up or commission parity. We always need to be negotiating for improved revenues to offset any mark-up discrepancies. Monitor the rates that your direct competitors are posting in the opaque and package channels to ensure you are getting a fair share of the business you want (*and are not taking the business that you wish to yield to your competitors*).

All these competitive forces lurk out there and we have not even mentioned your direct competitors who operate properties in your city. Notice, I did not say your competitive set; many competitive sets do not identify all true competitors. This level of competition is the most important and you probably don't need a lot of marketing strategy to audit them, but there are four areas that you should focus on each year:

1. Who is in your competitive set?
2. What is your unique selling proposition against them?
3. What is your price-value equation against them?
4. What has changed to influence your price-value equation?

Competitive Set Question your choice of your competitive set. You shouldn't lightly change your competitive set because the numbers make most sense when viewed over time. However, this is not as important as knowing who your customers view as you competition and monitoring performance against them. A good place to start is to identify all properties that charge the same basic rates that you charge. If a property is charging a similar rate, they are seeking the same price customer and should be reviewed even if they have not been a traditional competitor. Not all properties that charge the same rate are necessarily direct competitors; but this needs to be assessed.

Unique Selling Proposition The next step is your USP, what makes your property worth being in the market and better than your direct competitors. It may be as simple as: we are always cleaner than our competition or we will not be undersold. On the other hand, it can come from a complete strength, weakness, opportunity and threat (SWOT) analysis. The important thing is that it helps communicate who you are and provides a focus for executing the strategy.

Price-Value Position After you have stated your USP, you need to determine your price-value position. Specifically, this means how your rates should compare with each competitor, everything else being equal. Everything else being equal is a tough notion; but here, it can be best described as where all the competitor base room rates would be if you were all on pace for a normal occupancy. This is the starting point for setting your competitive rate differentials. For example, be priced $20 over hotel A, at par with hotel B and $20 under hotel C. As competitors fall behind in booking pace they will lower rates; but you should not react until observing a drop in your own pace.

Price-Value Equation Changes The last variable is what has changed in your price-value position. This year pay special attention to product upgrades. With recent occupancies at all-time lows, many properties have used the time to renovate their hotel (like changing tires under the yellow flag in NASCAR). As a result, flat screens are no longer exclusively found in four-star properties.

Indeed, many three star and lower chains have implemented new, upgraded standards. That is not your grandmother's Holiday Inn. This phenomenon requires some site visits this year. When you go on property, be ready with your mental check list. Besides electronics, hot items may be new bathroom amenities like mirrors, lighting and curved curtain rods.

Now Execute As a revenue manager or general manager, after you have completed your competitive review you are ready for another year of taking the fight to the market. Keep your competitive advantages in mind throughout the year as rate wars unfold and watch for opportunities to take price leadership. Finally, through it all, keep your eye on the prize–RevPAR index.

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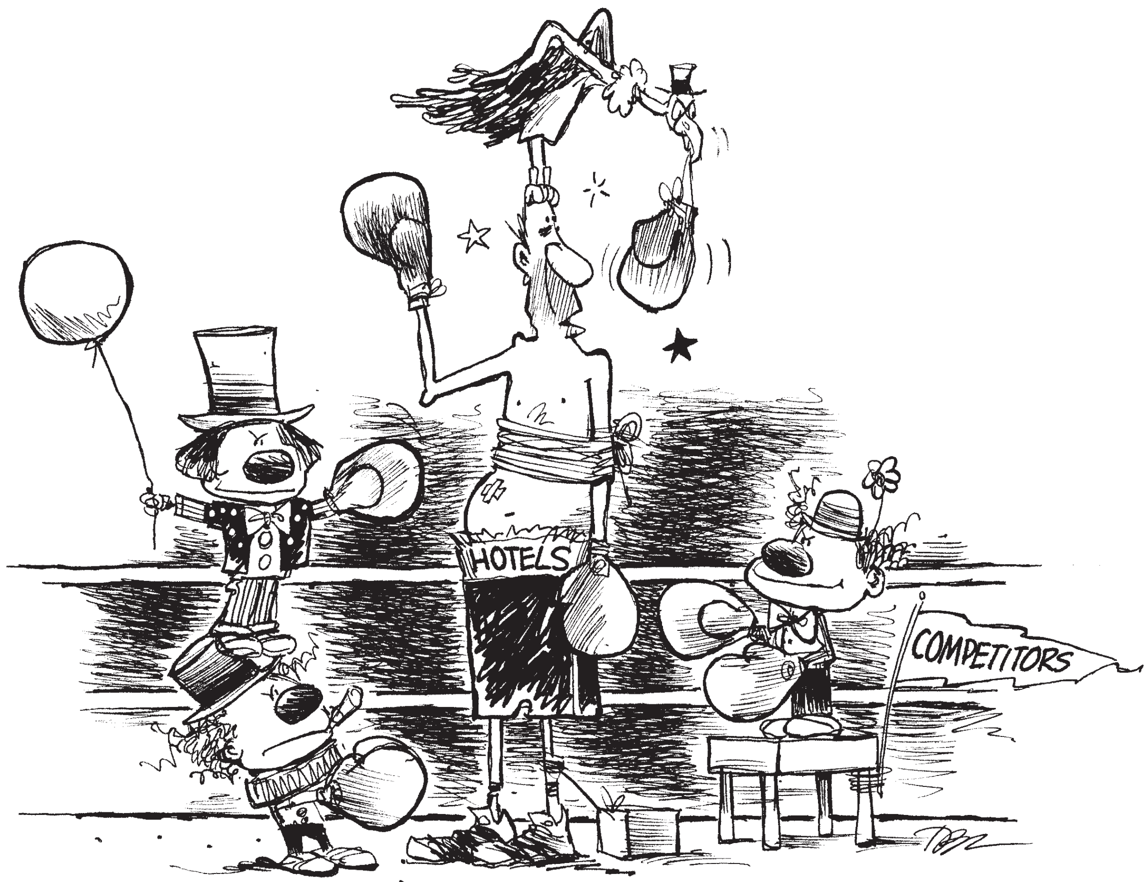

"...Hello? ...Bellboy? Isn't it time for the bell? Could we please have a bell here? Ohhhhhh bellboy!"