Marketing

by Dustin T. Personius

Present day competition for guests' money poses unique challenges for hotels

As gas prices quickly approach and surpass $4.00 per gallon thus straining our checkbooks, and a nationwide credit crunch pulls us further into a recession, the resultant increase in the cost of living has dealt a significant challenge to the lodging industry. As hoteliers, we are faced with the immense challenge of keeping occupancy levels up while maintaining much higher average daily rates in order to meet and offset rising costs.

New competition for guests' money

Competition for the discretionary dollar has become increasingly fierce in recent years and, to a greater extent, in recent months as a perfect storm of domestic economic instability, decreased consumer purchasing power, and significant overseas demand for American economic staples such as oil, wheat, corn and fertilizer continues to gather steam. The current situation? Anything related to or dependent upon oil, wheat, produce, shipping, or transportation has incurred a significant price spike in the past year. This has forced Americans to make some drastic choices in how they choose to spend their discretionary income.

Because the economic success of the hotel industry is heavily dependent on the flow of discretionary spending, lodging industry professionals need to understand that the landscape of competition is changing dramatically and unique marketing strategies and sales techniques will need to be implemented full force in order to stay afloat.

Recognizing exactly which entities represent competition is key to staying on top. Traditionally, our most threatening competitor may have been the property next door or in the next town over. Today, we are faced with competition from virtually every sector including many entities which may not traditionally have been considered a threat.

Airfare roadblock

In addition to your local competitive set, each destination now has to take into account which alternate destinations pose the most significant threats. Las Vegas, for example, may begin to lose some market share to Reno as residents in Reno's northern California drive markets of San Francisco and Sacramento opt to drive to Reno or Lake Tahoe to save on the cost of airfare to Las Vegas.

Similarly, Orlando could see a loss of market share to Southern California, San Antonio or even Wisconsin Dells as residents of those cities' drive markets opt out of paying astronomical airfares to get their families to Florida. This imminent fear is certainly evidenced by the proliferation of television advertisements touting Orlando as the family getaway destination sponsored by the Orlando/Orange County Convention & Visitors Bureau that have recently popped up on television networks and cable outlets.

This fact brings to light a competitor within the hotel industry's very own backyard; the airline industry. The hotel business could experience significant fallout from the various strategies that the airlines are using in order to cut costs and offset the rising price of jet fuel.

Many airlines are resorting to increasing booking fees, reinstituting Saturday night stay requirements, cutting service to and from less profitable markets, utilizing smaller aircraft to save on fuel consumption, unbundling their service product and, most noticeably, increasing their base fares. Just three weeks ago American Airline instituted a $15 charge each way for passengers to check their *first* piece of luggage, never mind the $25 charge each way to check a second bag! Other airlines will inevitably follow suit in an effort to increase passenger revenue or minimize aircraft weight during this period of soaring fuel costs.

For destinations that rely heavily on air service such as Hawaii, Mexico, the Caribbean islands and Las Vegas to name a few, the combination of the above factors spells a huge challenge for the hotels and resorts in those areas. The decrease of air service and the use of smaller, more fuel-efficient aircraft not only adds up to less passengers being able to fly but also a sharp increase in demand which can only serve to drive airfares higher.

Higher fares pose enough of a challenge, but when coupled with the increased fees and surcharges, the puzzle becomes more complex. Especially when consumers are concentrating on watching their spending and searching for the best possible price, every $25 in excess baggage fees means $25 less that can be spent on room rate. Every $10 fuel surcharge or $5 convenience fee represents fewer funds available to spend on food and beverage, in-room entertainment, etc.

Groceries and consumer goods

While the infighting between the airline and lodging industries will pose a significant problem for hotel and resort properties in efforts to maintain rate and occupancy, one additional set of competitors on the domestic front will throw yet another curveball at our progress.

As the issue of rising fuel costs runs full circle, the cost of groceries and other domestic goods will also be on the rise. Our potential guests may very well be put in the position of having to choose not between one hotel or another, but between taking a trip or buying groceries, painting the house or repairing the family vehicle. For this reason, businesses such as Wal-Mart and Home Depot could very well take a forefront on the lodging industry's competitive stage.

The good news is that people, in general, do want to travel. They need the escape that a week-long vacation or a weekend getaway can bring. It is to our advantage as lodging industry professionals to find creative ways of engaging new guests and establishing repeat business.

Soft cost "value adds"

While the airlines unbundle their services in an attempt to transfer costs to the consumer, the hotel and resort industries should focus their efforts on including as many value-added components as possible in order to avoid our guests having the feeling of being "nickel and dimed".

Soft cost "value adds" can be the most beneficial and, of course, least costly methods of adding value to a guest's stay, regardless of whether they are traveling as part of an air/hotel package or on a transient reservation. Daily or one-time resort credits, the reduction or elimination of resort fees, and reinstating kids stay/eat free programs can be effective in helping guests to offset the cost of ancillary expenses incurred while on their trip, all at relatively little cost to the property.

Smaller properties that do not offer a food and beverage outlet may consider approaching local restaurants by volunteering to provide discount coupons to their guests in exchange for a certain percentage discount, a free cocktail or appetizer, or even working with those outlets to develop a package where all costs would be built into the nightly room rate. Packaging has long been a key component in creating the most attractive purchasing option for potential guests and can also be a great way of building certain fixed costs of added value into a booking while helping to maintain a property's rate integrity.

Consumers are many times willing to spend a bit more in exchange for receiving an exponential return in value. A "room only" rate of $179 may be viewed as a steal in many markets. However, once the parking fee of $25 per night is assessed and meals are added to the bill, the total adds up quickly. A nightly rate of $229 which includes parking, breakfast, a resort credit and admission to the hotel spa's workout facility is a much more attractive offer and, as long as it is advertised appropriately, will see great returns.

Conclusion

Eventually, the economy will turn around. Costs will begin to stabilize and travelers will once again return in huge numbers to the roads and skies. As lodging industry professionals, it is our responsibility to stay as far ahead of the curve as possible. This can be achieved by creating unique and dynamic marketing programs and packages and, above all, providing excellent consumer experiences. ✧

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