case study

Oasis in Sin City: Determining a competitive set

By James Drake and Stefan Cosentino

Introduction

The Caravan Hotel was a midscale, full-service 300 room non-gaming hotel on the edge of what is called the Las Vegas Resort Corridor in Las Vegas, Nevada. The hotel was recently sold to a hotel developer, Desert Rock Hospitality (DRH). The company has renamed the Caravan to the Oasis hotel. The new hotelier has invested considerable funds into upgrading the property into a more contemporary, upscale resort meant to compete with other non-gaming hotels in the Las Vegas Resort Corridor. The Oasis is scheduled to open in the coming weeks and a new competitive set of hotels remains to be determined by the resorts key management personnel, primarily the revenue manager, Susan, and Brett, the general manager.

The determination of a new competitive set (or comp set) needs to be addressed as soon as possible because an accurate comp set is necessary to benchmark the hotel's performance. The existing comp set contains other midscale hotels that the Caravan used to compete against. Now, with the upgrades to the hotel, the Oasis owners are intent on competing for a more lucrative, affluent guest that does not want to necessarily be in a gaming environment.

Revenue Management

Revenue management, or yield management, was born of the airline industry in the 1970s as a result of deregulation (Ferguson & Smith, 2014). The hotel industry followed suit in the 1980s when Marriott International started using the term revenue management and began offering multi-tiered pricing for its hotels (Ferguson & Smith, 2014).

Revenue management, as a science, can become quite complex, and it has been the domain of software producers since the 1980s, as most major hotel companies have invested significant capital into revenue management systems (Ferguson & Smith, 2014). Ferguson and Smith (2014) define revenue management as "the science of pricing a product, commodity or service so as to maximize total revenue," (p 224). Revenue managers typically use historical datasets to analyze and formulate room pricing decisions based on this data and current market data. Such data is critical to the operation of the hotel as it contains three key performance indicators: occupancy rates, average daily rate (ADR), and revenue per available room (RevPAR). Most of this data was collected by a third party that collects this data through a proprietary software package with agreements with each hotel that subscribes to its data-gathering service, Smith Travel Research (STR). This data helps a hotel's management team, specifically the revenue manager, to optimally price room rates and to forecast demand. It is important to note that when demand if forecasted accurately, it helps not only with room sales, but also helps many other managers at a property make informed, tactical decisions regarding expenses such as labor, as well as both short and long-term planning of the property's revenues and expenses (Lim, et al 2009).

RevPAR, ADR, Occupancy, and Other Factors that Affect Net Operating Income

RevPAR, or revenue per available room, is considered the lodging industry standard, or benchmark, of performance (Ismail, Dalbor, and Mills, 2002). RevPAR is calculated by multiplying a hotel's occupancy rate by the ADR for a specific period of time. RevPAR is arguably the most important lodging statistic for general and revenue managers. This is because as a tool, RevPAR is used to "forecast future room revenues, estimate and then forecast a property's market share, and determine employee productivity, as well as provide an indication of customer satisfaction with a property," (Ismail, Dalbor, and Mills, 2002, p 75). ADR is also an important metric, as ADR and RevPAR were the two most important operating indicators ranked by lodging executives in one study (Singh and Schmidgall, 2002).

Brand also plays an important part in pricing, as in the ability of a hotel to charge a premium while its non-branded competitors may not be able to enjoy the same benefit. Johnson and Selnes (2004) found that consumers, typically, are more willing to pay a premium on a price, or price premium, for brands that they may see as high quality. Higher quality service/product can affect financial performance in that firms can charge price premiums and that firms can increase market share (Phillips, Chang, and Buzzell, 1983).

Smith Travel Research Reports – The Comp Set

There are several reports offered by Smith Travel Research, one of which is called the "STAR" report, which shows how the performance of a group of hotels that are in what is called a competitive, set of the primary hotel. This comp set is defined by the subscribing hotel. The company refers to RevPAR, ADR, and occupancy rates as the key performance indicators (KPI) for the datasets. This KPI data from the

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subscribing hotels in a particular comp set is aggregated into one number for each KPI, so no particular hotel's data can be determined. No single hotel data is able to be ascertained from these reports.

For example, if you worked for a hotel as the revenue manager, you would choose your hotel's primary competitors and list them in your comp set, as your hotel is in competition for the same customer segment. Assuming these hotels subscribe to STR's services, then each of their KPIs would be averaged into one number and your hotel's actual KPI would be compared to that number. So if your ADR for the month ending May 31st, 2017, was $85.00, you would be able to compare that number to the comp set's ADR, which would be the average of all of the hotels in the comp set.

As a revenue manager, you would ascertain your hotel's competitiveness in your comp set. You would also be provided information on your hotel's specific ranking within your competitive set. For example, if your hotel's RevPAR for a particular time period was higher than all of your competitors in your comp set, your hotel's ranking would be listed numerically as the highest of the comp set (1 of 4, for example), ("Definitions", n.d.).

Queenan, Ferguson, and Stratman (2009) define a hotel's competitive set as being "comprised of hotels in the same geographic proximity and of similar service levels," (p. 177). Kim and Canina (2011) state that "competitive sets are often defined by focusing on similarities in firms' resources or strategy, product type or usage, or consumers' needs," (p. 21).

The reports supplied by STR are useful for forecasting demand also, based on historical data (along with current data, knowledge of future events taking place in the market, etc.). Queenan, et al (2009), found that the hotels that exhibited the best financial performance in a comp set also demonstrated superior ability in forecasting than their rivals. Hotel-online.com, a hotel management-oriented site, suggests using the "3 P's" when constructing a competitive set:

- Product, as in each hotel in the set should have somewhat comparable room types and perhaps be similarly branded, as in carrying a "flag" of a hotel company.
- Price, where each competitor offers rates in the same general range
- Proximity, as in the location of a hotel's closest competitors (von Bahr-Lindemann, 2001).

Why is composing an accurate-as-possible forecast important? When developing a forecast for demand in the hotel industry, a host of factors need to be taken into consideration. Weatherford, Kimes and Scott (2001), determined that an accurate general forecast must take into account the length of stay of the guest(s) and rate class. Also, Kimes (1999) found that erroneous group forecasting had a strong impact on hotel performance.

The general manager of a property must be keenly aware of the hotel's competitive set, whether in the context of an STR report or not. As in any business, the key competitors of a property must be monitored and evaluated against the hotel's performance, if possible. A study of hotel general managers' evaluations, the selection of an accurate competitive set was used as a benchmark to determine management productivity (Morey & Dittman, 2003). Indeed, the Morey & Dittman (2003) study found that a particular hotel's competitive set's average daily rate and occupancy rate have "strong positive effects on the hotel's gross operating profit," (p. 63), suggesting that the strength of a hotel's local competitive market impacts its profitability.

The Case

The Oasis Hotel

The location of this property is approximately one mile east of Las Vegas Boulevard, otherwise known as the Las Vegas "Strip." It is considered just inside the "resort corridor" of Las Vegas Boulevard. This property contains an eight story tower with 220 rooms, a full-service restaurant, a pool and bar area, a lobby bar, and room service. There is no casino, which the acquiring company considers a competitive advantage.

The property was formerly a midscale branded full service hotel that catered to the more budget-conscious tourist who wanted to be close to the Las Vegas Strip but did not want to necessarily gamble at a hotel. The hotel's strategic vision was to capture the budget-midscale market to put their guests as close to the gaming action as possible without offering any of the amenities or comforts that the Strip properties offer. The hotel's previous management ensured the taxi lane was always well maintained as they did not expect their guests to remain on property during their stays in Las Vegas. The hotel did have a small pool, but no daybeds or cabanas or even a "poolside bar."

The acquiring firm, Desert Rock Hospitality (DRH), is an independent company that purchased the hotel property six months ago and has invested over $18 million in renovations and upgrades to the property in the hopes of capturing the more lucrative, affluent guests who wish to experience Las Vegas without the busy and noisy casino atmosphere. The Oasis claims that since it is a strict non-smoking property, this could be a competitive advantage for the property, since casinos have traditionally allowed smoking, either on the casino floor or in designated areas throughout the property. However, studies have shown that bans on smoking in casinos have a negative effect on demand (Thalheimer & Ali, 2008).

The management of the property has come to the conclusion that it should not attempt to compete against the much larger and more gambler-friendly hotels with casinos, but they want to be able to compete on a room-to-room basis with the larger upscale, but not necessarily luxury-class gaming resorts. Accordingly, many upgrades have been made, especially in the pool area, which now has a larger pool that resembles a tropical lagoon, and the construction of VIP cabanas. Also, the hotel, when originally constructed in 1974, had 270 rooms, but Desert Rock decided to reduce the number of rooms in favor of converting to larger rooms to better compete for the more affluent guest. Accordingly, the hotel now has 220 rooms, which are categorized as follows:

150 single or double occupancy rooms:

- 440 – 460 square feet
- In-room safe, ironing board and iron
- Coffee maker, hairdryer, closet with two robes and slippers, premium bath amenities
- Two queen or single king beds, sitting area with desk and reclining chair and table
- End tables and refrigerator and microwave inside an entertainment armoire with 40" flat-screen television
- Vanity countertop in bathroom; stall shower with rain-effect shower head and seat

50 junior suites:

- 640 – 700 square feet
- All amenities of single rooms plus:
- Sitting room with sofa and loveseat
- Bedroom with 50" flat screen television inside entertainment armoire
- Private bath with two sinks and separate vanity counter
- Reclining chair and table
- End tables

20 executive suites:

- 1,100 square feet
- All amenities of junior suites plus:
    - Living room:
        - King size sofa with pull-out bed
        - Two love seats
        - Two reclining chairs and table
        - Writing desk
    - Mini bar area
    - Dining room table with seating for eight
    - Two bedrooms with either two queen or single king beds

Property upgrades/new amenities:

- Renovated lobby with marble and Italian ceramic flooring/walls
- Limited-service bar with pub tables on first floor
- Fitness center for guests with locker rooms
- Full-service restaurant with bar on top floor
- Room service available 24 hours
- Full-service spa facilities
- Concierge desk
- Lagoon-type pool with poolside bar with daybeds and cabanas
- Free valet parking; free self-parking; executive shuttle to airport
- 6,500 square feet meeting/conference space

Ready to Launch

Brett, meanwhile, is engaged in readying the property for the planned Memorial Day grand opening (actually a soft opening the previous Tuesday before Memorial Day) and is meeting with the heads of the hotel's departments on a daily basis. He has tasked Susan with forecasting future demand, setting room rates, ensuring the subscription to STR is valid, and choosing a competitive set that will make sense given the renovations that the Oasis has gone through compared to the previous incarnation of the hotel (when it was an economy-scale hotel).

Susan contacts the former hotel operator by telephone and by email, obtaining permission for the retrieval of historical data submitted to STR. The hotel's former operator used a comp set that included five economy hotels in the same general area, encompassing two zip codes. The KPIs are indicated below for the years ending 2013, 2014 and 2015:

The former hotel's actual KPIs for the same years are shown in Table 2 below:

Susan has access to physical hotel data for properties that report

Table 1

Key Performance Indicators by Year
Comp Set of Former Hotel Owner

KPI	2013	2014	2015
Occupancy Rate	63%	68%	70%
ADR	$62.00	$71.00	$74.00
RevPAR	$39.06	$48.28	$51.80

This data exhibits the aggregated results of the comp set of the Oasis under the former owners.

Table 2

Key Performance Indicators by Year
Actual Results of Former Hotel Owner

KPI	2013	2014	2015
Occupancy Rate	56%	59%	62%
ADR	$52.00	$60.00	$63.00
RevPAR	$29.12	$35.40	$39.06

This data exhibits the actual results of the Oasis under the former owners.

Table 3

Hotel Information on Potential Comp Set Hotels

Chain or Independent?	Class	Date Opened	Rooms	ADR	Restaurant?	Total Meeting Space (Sp. Ft.)	All Suites?	Resort Pool?	Resort Spa?	Fitness Center?
Chains	Upper Upscale	Mar-98	262	219	Yes	5,105	No	Yes	Yes	Yes
Chains	Upscale	13-Aug	259	186	Yes	855	No	Yes	No	Yes
Chains	Upscale	Jan-99	240	189	No	2,655	Yes	Yes	No	No
Independent	Upper Upscale	6-Oct	214	229	Yes	5,658	Yes	Yes	No	Yes
Chains	Upper Upscale	Sep-99	204	219	Yes	6,683	Yes	Yes	Yes	No
Chains	Upper Upscale	Oct-99	198	216	Yes	2,255	Yes	Yes	Yes	No
Chains	Upscale	May-98	186	179	Yes	4,455	No	Yes	No	No
Chains	Upscale	May-89	176	189	No	1,435	No	Yes	Yes	Yes
Chains	Upscale	Mar-99	174	204	Yes	3,507	No	Yes	No	Yes

their KPIs in the Las Vegas area via STR reporting. She has the following selection of hotels from which to select for the Oasis' comp set, as shown in Table 3. The hotels selected have between 174 and 262 rooms. It is important to note that the class ranking of properties is dependent on average daily rate. If the Oasis wants to be ranked with these firms, then it would need to have a competitive ADR in the range of these firms. This information serves as only a guide to help Brett and Susan find a solution to comp set determination. Assuming that the Oasis will have ADRs within the range of the hotels listed below, and also that all of the properties below are within 2 miles of the Oasis, Brett and Susan are satisfied in choosing five properties from this list to create the new comp set.

Some information presentation based on STRglobal STAR report format. Most information contained in this report would be gathered by the Oasis revenue manager.

Brett and Susan discuss the hotel type that the Oasis should be competing against. The general senior management meeting is in two days and both Brett and Susan will discuss their ideas about choosing an accurate competitive set based on the amenities of the various hotels to choose from and comparing those with the amenities of the Oasis.

The factors that will be brought up for discussion in how to determine a new competitive set will include the following, as compared to the Oasis Hotel, assuming a competitive ADR range is in place for all of the properties listed Table 3:

- Age of property (for this study, "Date Opened" may be used)
- Number of rooms and room types offered
- Branding (Oasis is independent)
- Amenities offered (in-room services, spa, pool, fitness center, meeting space)
- Level of service offered (concierge, VIP desk, valet)
- Food and beverage operations and type