

BMIH5007 Financial Management for the Hotel Industry

Supply, Demand & Pricing Position Market position

Register



HOSPITALITY
AND
TOURISM
MANAGEMENT



Man Geni Addysg Uwch yng Nghymru
Where Higher Education Began in Wales



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Welcome

This term:

- **12 Weeks of lectures**
- **Lectures – 2:00pm-5pm @DTC Room 203**
- **Two assignment for this module**
- **Module handbook available on Moodle**

Announcements- *Classroom Etiquette*

- Greetings and good manners
- Keep the Classroom premises clean and tidy
- Please do not engage in private conversation during class hours
- Use English only in classroom situations
- Be respectful to your fellow classmates, your lecturers or visiting guests
- Do not leave the room during class, except for emergencies
- Join the classroom at least 5 minutes earlier than the scheduled time
- Food and drink are discouraged during class

Where Are We Now?

Module:	Contemporary Themes for the Hotel and Hospitality Sector
Week	Lecture Topic
1	Induction
2	Introduction to the Module, Financial Terminology, and assessment overview
3	Introduction to Supply, Demand & Price Setting Market Position
4	Key Characteristics of the Hospitality Industry and Financial Management Implications Role of Finance Manager and Finance Team
5	Cost structure Assessment one (1) support
W/C 28th Oct	READING WEEK-NO CLASSES / MID-SEMESTER BREAK
6	Introduction to budgeting and Working Capital Management
7	Risk Management and Financial Strategies
8	Revenue Management
9	Balance Sheet and Income Statement
10	P&L and Financial Stability Break even analysis
11	Module Feedback

Recap-What did we learn last week?

Recap-What did we learn last week?

- Module Overview
- Assignment introduction
- Introduction to Financial Management
- Introduction to Financial Terminology
- How to use Generative AI in Assessment

Question

- Briefly explain the difference between asset and liability.
- How does a hotel's revenue reflect its performance success??

Today's Objectives

1. Assignment one (1)
2. Discuss Supply
3. Explain Demand
4. Market Position

Assessment

Assessment 1

Due **Monday 4th November 23.59pm**

Analysis of Financial Reports to Assess Business Performance

A comprehensive report that critically appraises Marriott International financial performance over the last three years, the report will examine financial factors such as total revenue, market position, and growth potential with reference to evidence and contemporary examples.

Make recommendations based upon your findings for Marriott International expansion into emerging markets in 2025.

Assessment 1

Title page:

Student name

Student ID

Lecturer name

Assignment title

Acknowledgement: Provide a brief and clear statement acknowledging the use of AI (specify the type and version) in the assessment. If no AI was used, still make a declaration to that effect.

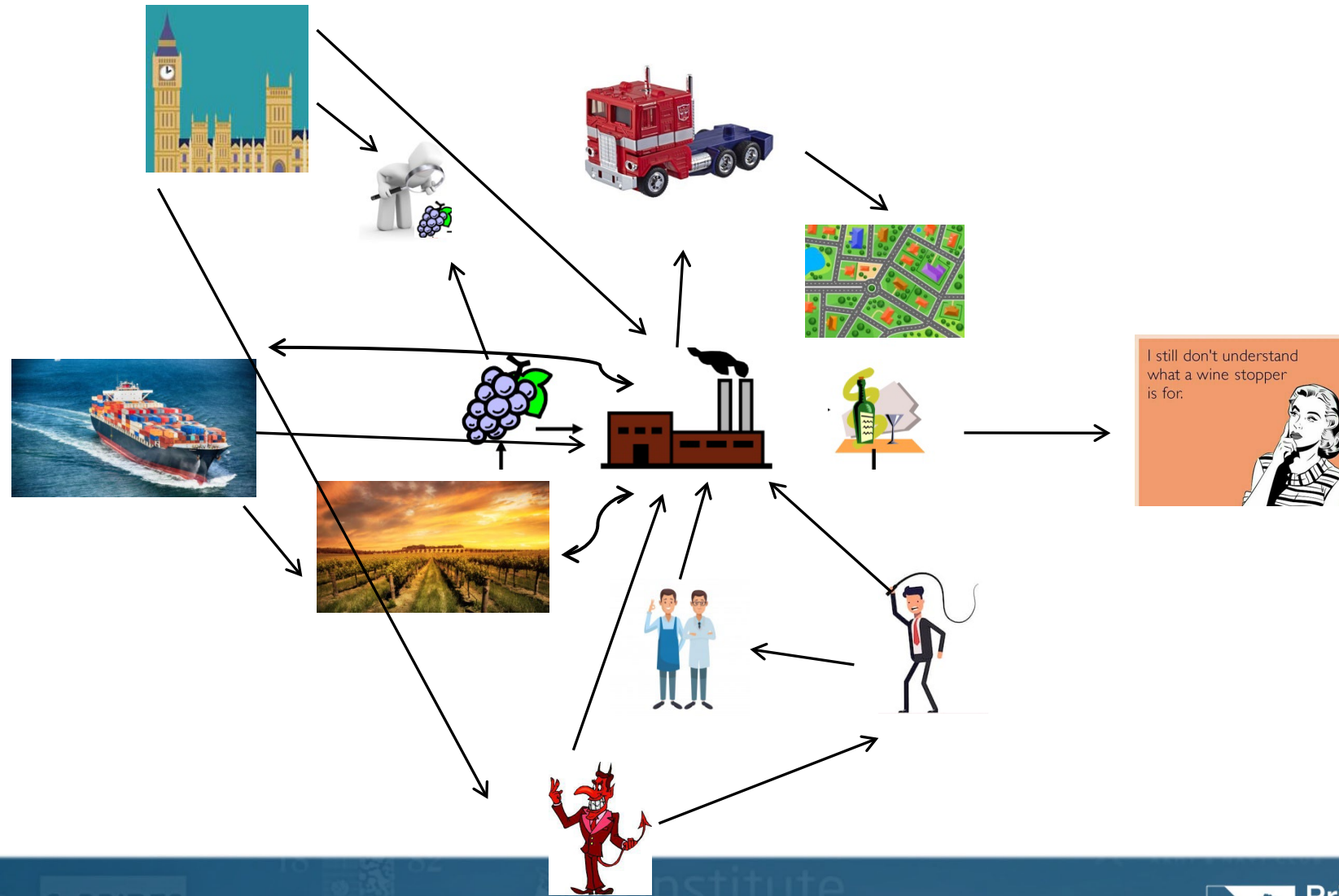
Describing vs analysing?

What?

Why?

Descriptive writing	Critical/analytical writing
States what happened	Identifies the significance
States what something is like	Evaluates (judges the value) strengths and weaknesses
Gives the story so far	Weights one piece of information against another
States the order in which things happened	Makes reasoned judgements
Says how to do something	Argues a case according to evidence
Explains what a theory says	Shows why something is relevant or suitable
Explains how something works	Indicates why something will work (best)
Notes the method used	Indicates whether something is appropriate or suitable
Says when something occurred	Identifies why the timing is important
States the different components	Weights up the importance of component parts

Lets look at a business environment

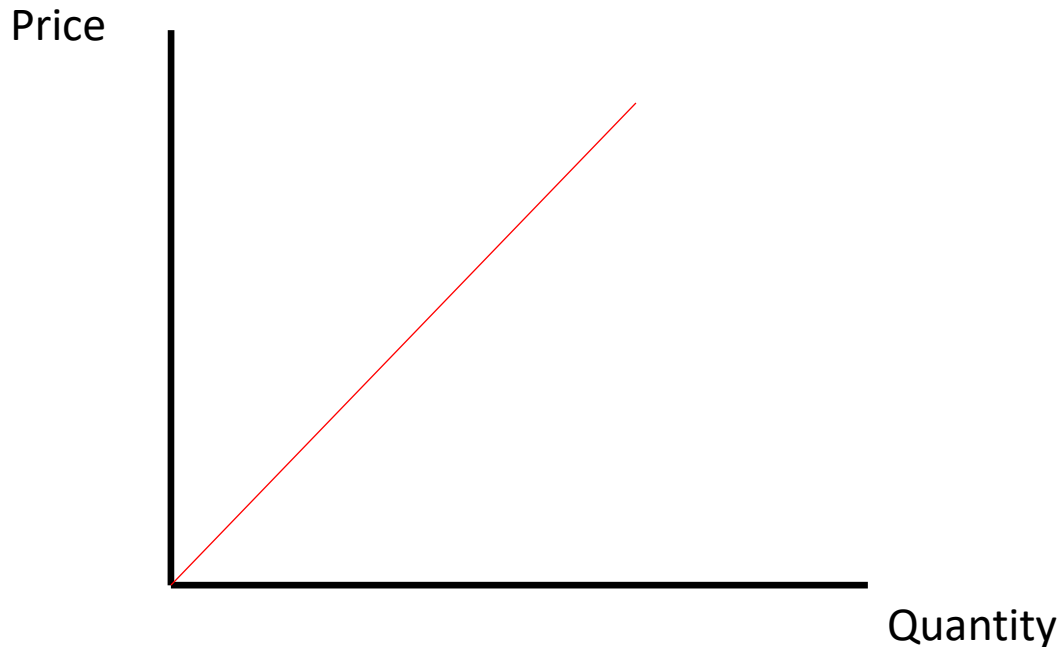


Supply.

Law of Supply! – An increase in the price of a good or services, increases the '**quantity supplied**' of that good or service.

E.g, when the prices goes up – the more that will be produced

This is because when price increases this incentivises suppliers to produce more to gain greater revenue.



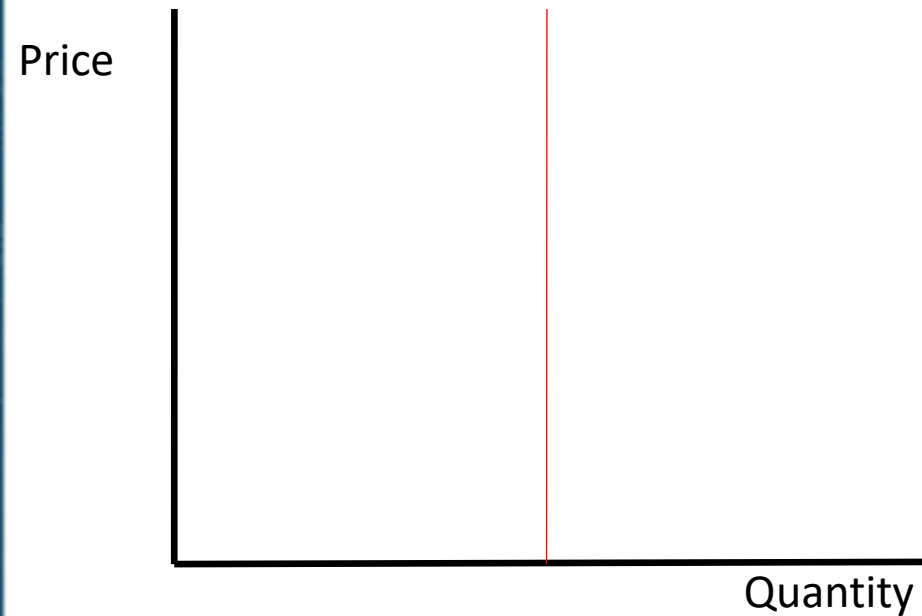
It is important to note that we talk about supply in 2 ways!

Quantity supplied- The number producers will sell.

Supply – is a function, not a number!
(the quantity we are willing to sell according to price!)

Immediate

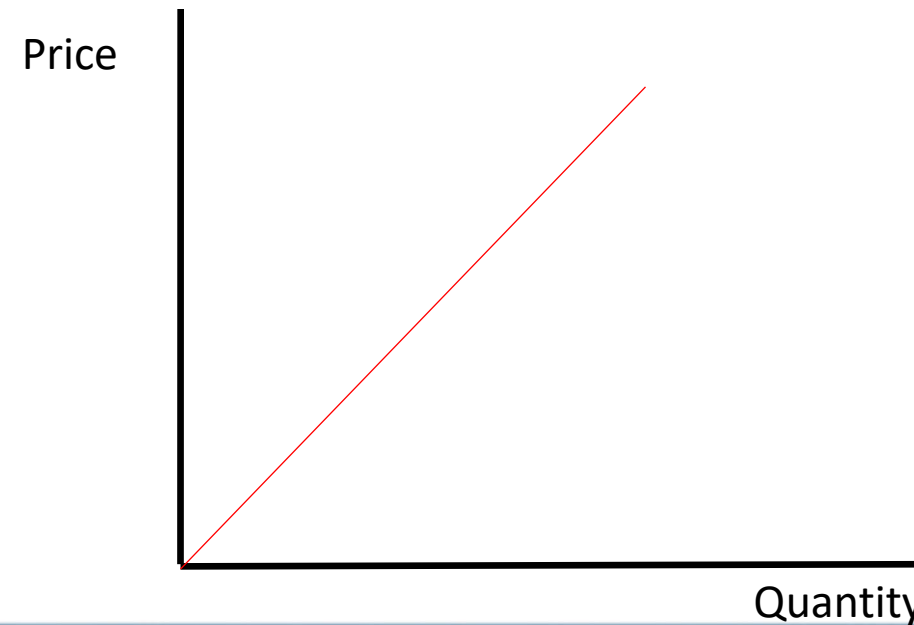
- Immediate run – No access to increased inputs (cannot supply any more)



Short Run

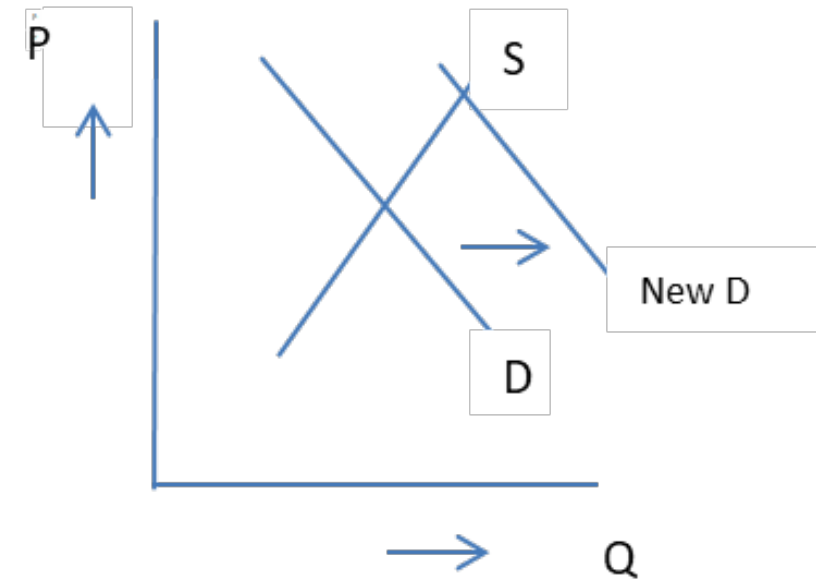
- Short run – Some or one factor is 'fixed' (production scale, resource accessibility etc..)

More can be supplied but at a higher price



Question?

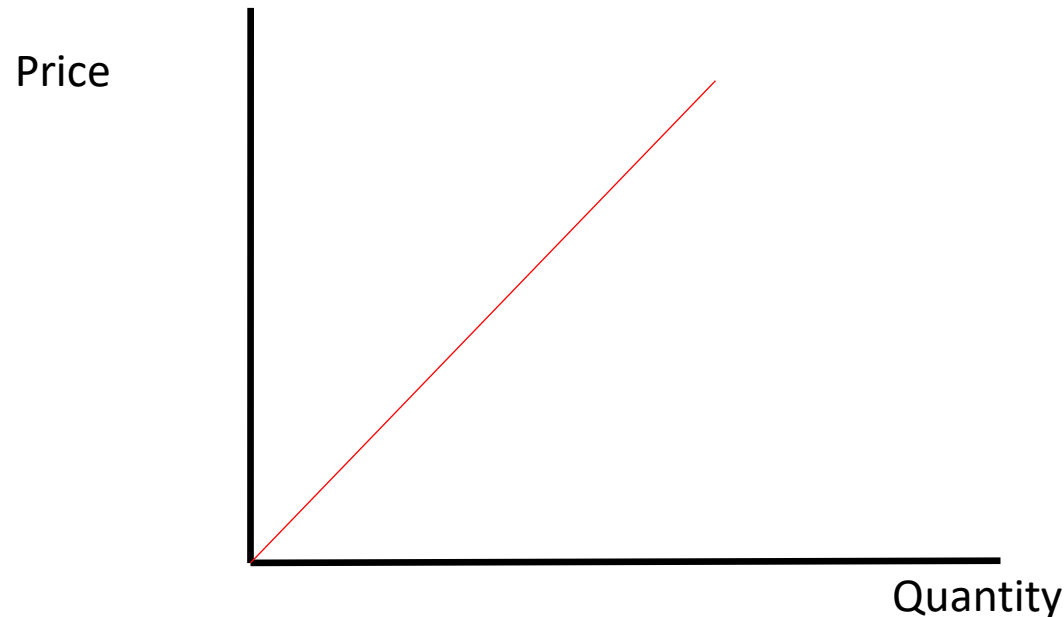
- So in the '**Short Run**' when demand increases, suppliers will try to satisfy this by increasing **Quantity supplied**.... But why do prices tend to go up?
- Immediate- right now, how many bowls of cereal can you make.... and what would it cost you?(revenue - House, Bowls, fridge running cost, etc..)
- Short Run- if I gave you an hour, How many bowls of cereal can you make, giving you time to go to the shop find money to buy ingredients, how much can you fit in the car etc...
How much would it cost on top of original costs?



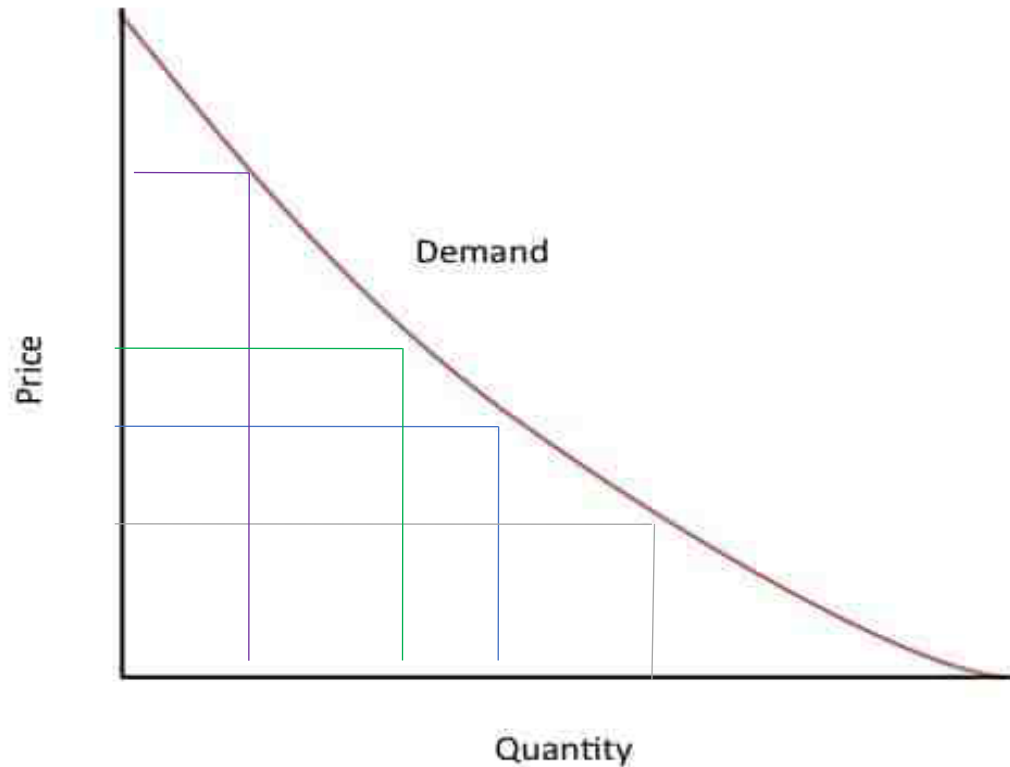
Question?

- What happens to supply curve when a products price increases?

Nothing! A change in price only affects quantity supplied, the supply curve does not shift we just go up the line.



Demand

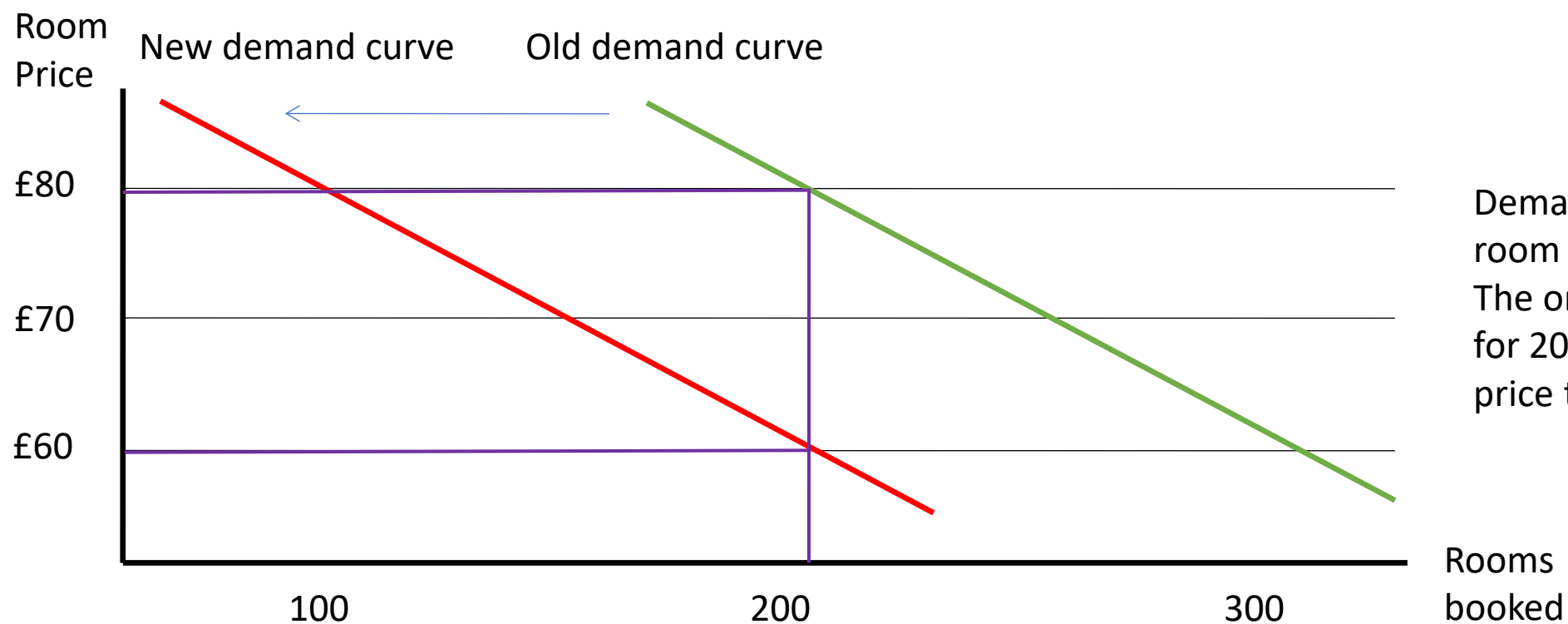


A consumers desire to purchase and willingness to pay a price for a specific good or service.

Law of demand states: the higher the price, consumers will demand a lower quantity. Price lowers, consumers will demand more.

Demand Shifting

Many reasons for demand to 'shift', Covid being the most recent and dramatic example for the hotel industry. If demand shifts right, this represents more demand and more revenue. A shift left is a reduction in demand and lower revenue.



Demand shift example for a hotel room
The only way to maintain demand for 200 customers is to lower the price to £60 a room.

Price Elasticity of Demand (PeD)

- PeD tells us what will happen to total revenue (TR) when we change price.
- We know if price goes up people buy less, but if it goes down people buy more.....

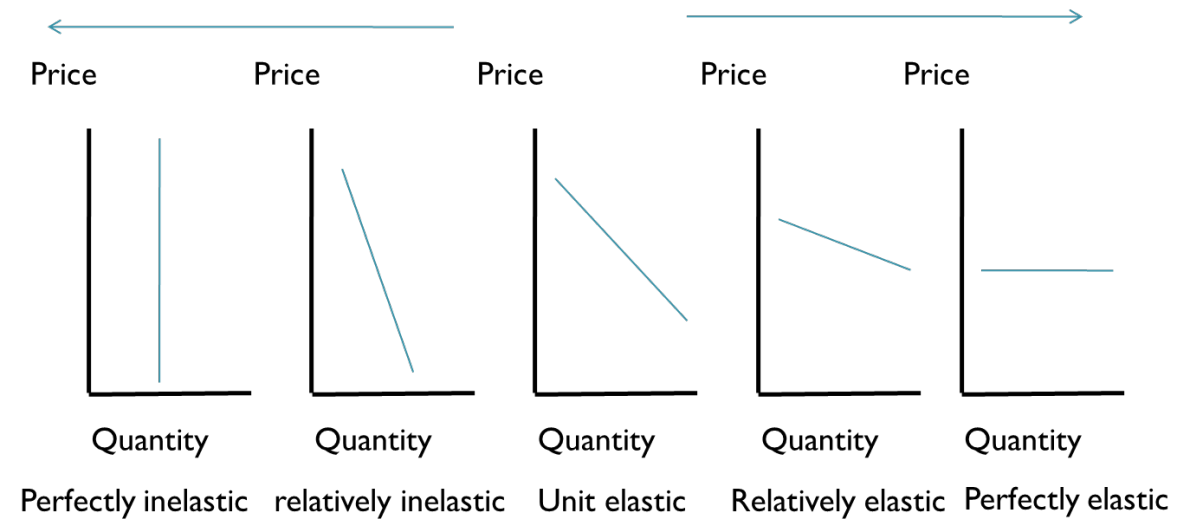
But by how much and to what extent?!

This is elasticity

Elastic and Inelastic

Inelastic = low change in demand when price goes up/down e.g. Fuel

Elastic = High change in demand in relation to price e.g milk



Are hotels 'Price Elastic' or 'Price Inelastic'?
Discuss

SPLAT when is it elastic or inelastic?

Substitutes , More substitutes = elastic

Percentage of income, greater percentage of income
the more price elastic

Luxury / Necessity

Luxury = Elastic

Necessity = Inelastic

Addictive / habit forming
= Inelastic

Time period

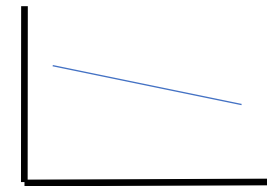
Short term =inelastic

Long term (substitutes) = Elastic

What hotel brands are more 'Price Elastic'
What hotel brands are more 'Price Inelastic'?

Elastic

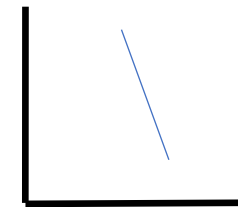
Price



Quantity

Inelastic

Price

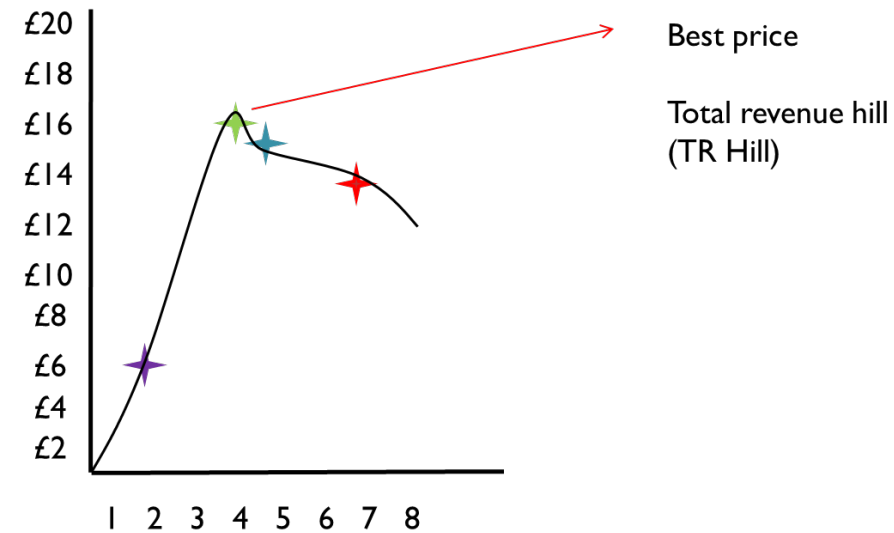
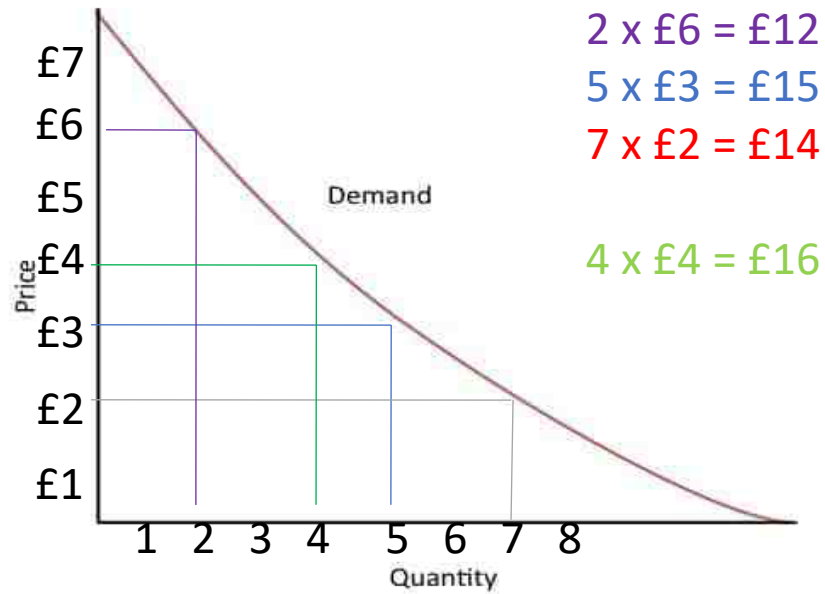


Quantity

Cross price elasticity

- When demand for your product is affected by changes in the price of another product. E.g milk/cereal
- What products might be cross price elastic for a hotel?

The links between demand and revenue.



Price setting and equilibrium (Market clearing).

If suppliers look at demand in setting prices and customers look at prices when deciding how much they want there is a bargaining process involved and we can look at the point at which

Every seller can find a buyer

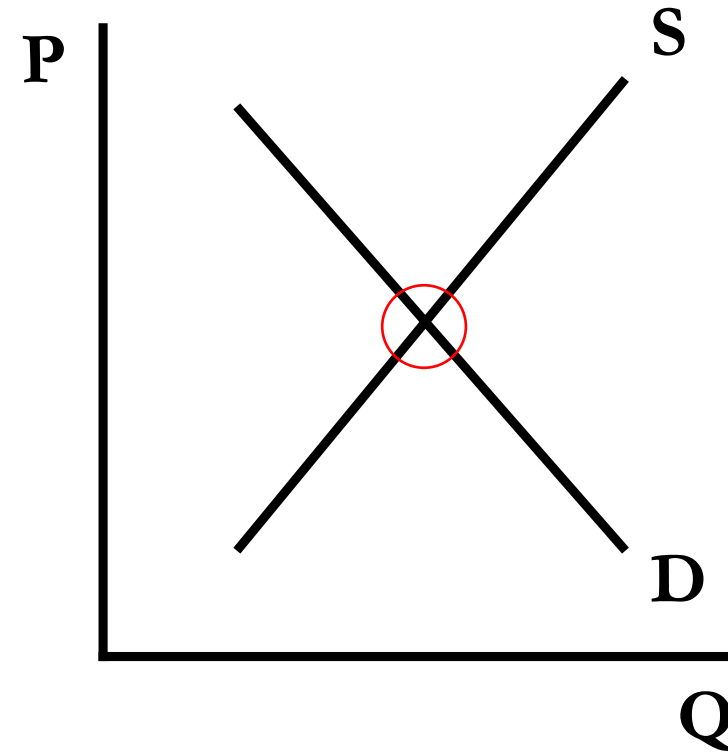
Every buyer can find a seller

Which is where the S line crosses the D line.

Market will gravitate to that point (more or less)

This point where the lines cross is called the 'Equilibrium' or 'Market Clearing' price.

Equilibrium because it is a point of rest, everywhere else there is a force pushing prices towards this point. (PEST!)



Comparing equilibrium shift.

- To do it you need to answer 2 questions:

- Q1. Is it a supply or demand thing?

(As we need to decide which line to shift).

- Q2. Which way?

(We have to decide in which direction to move the line):

Left = less

Right = more

Supply Example.

In regards to a holiday If the price of water rises do you care?

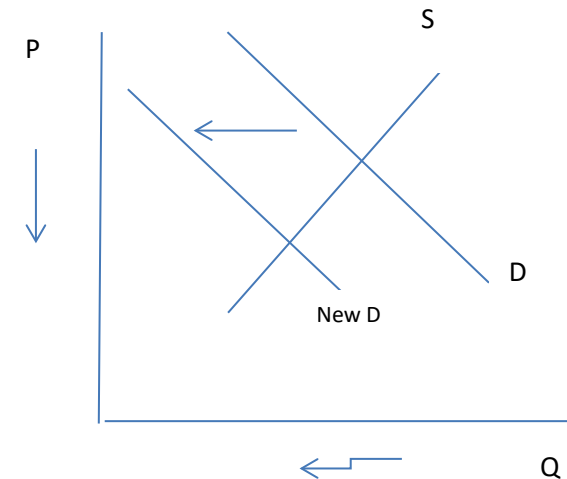
Only if it affects the price of the hotel room,/drinks ie. only to the extent that it affects supply first.

So it's predominantly a supply thing.

Once you have answered both questions you simply draw the shift and read of the results in terms of P and Q.

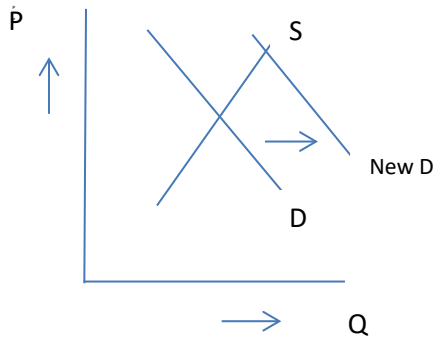
We can use S&D analysis for explanation and prediction.

Market for hotels during covid lockdown.

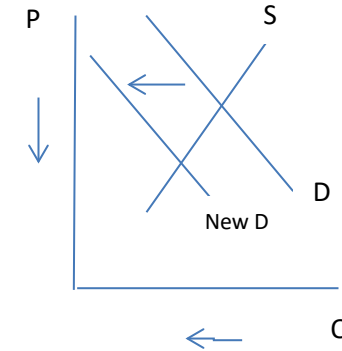


Demand decreases as covid created a shift in demand due to Political/Social cultural PEST impacts

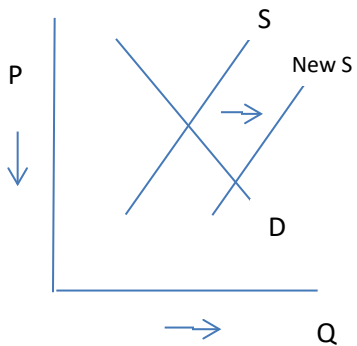
4 ways the market can go.



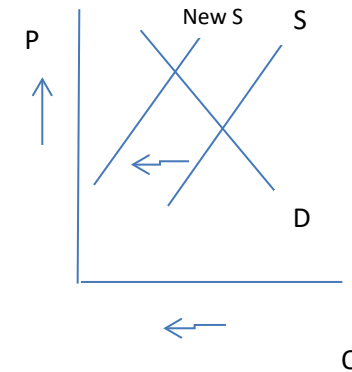
Demand increases, more quantity sold
prices rise



Demand decreases, Price lowers,
quantity supplied lowers



Supply increases, prices lower
quantity supplied increases



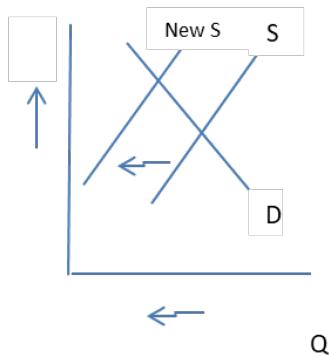
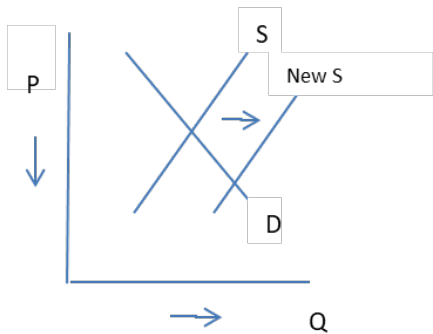
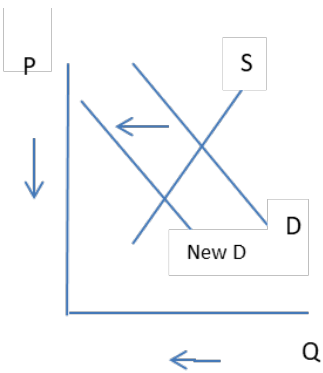
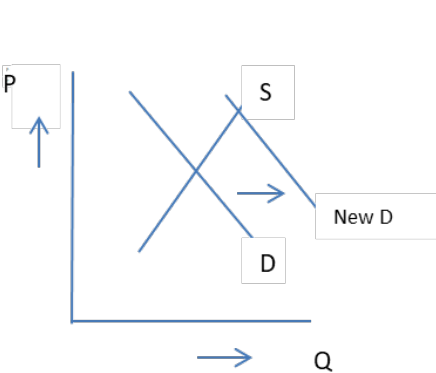
Supply decreases, quantity
supplied decreases, price
increases.

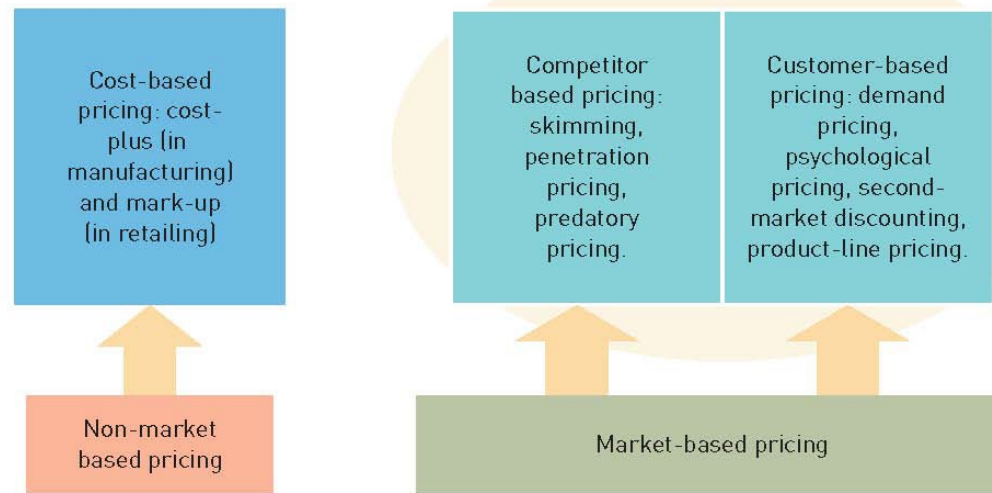
Question-30 mins

Q. In groups analyse the strategic implications of these 4 alternatives (note that for two of them PeD may come into play).

Q. Look at assignment 1 select a hotel brand and think which of the 4 drawings might apply to your firm and explain why

- i) consider what evidence you would need to collect to 'prove it.' (be specific)
- ii) consider and explain what impacts these may have on profitability





Market based and non-market based Pricing

There are two main categories of pricing, each with their own approaches (Blythe, 2014).

An example of psychological pricing



LAS VEGAS HOTEL CHOICE

CONSIDER THE FOLLOWING ALTERNATIVES (SHOEMAKER, 2003):

CHOICE A:

Luxury suite room at \$159; for an additional \$30 you get a guaranteed room on a high floor with a Vegas Strip view.

13.6% chose to pay \$189

CHOICE B:

Luxury suite room with a guaranteed room on a high floor with a Vegas Strip view for \$189, or a similar room for \$30 less elsewhere in the hotel.

20.6% chose to pay \$189



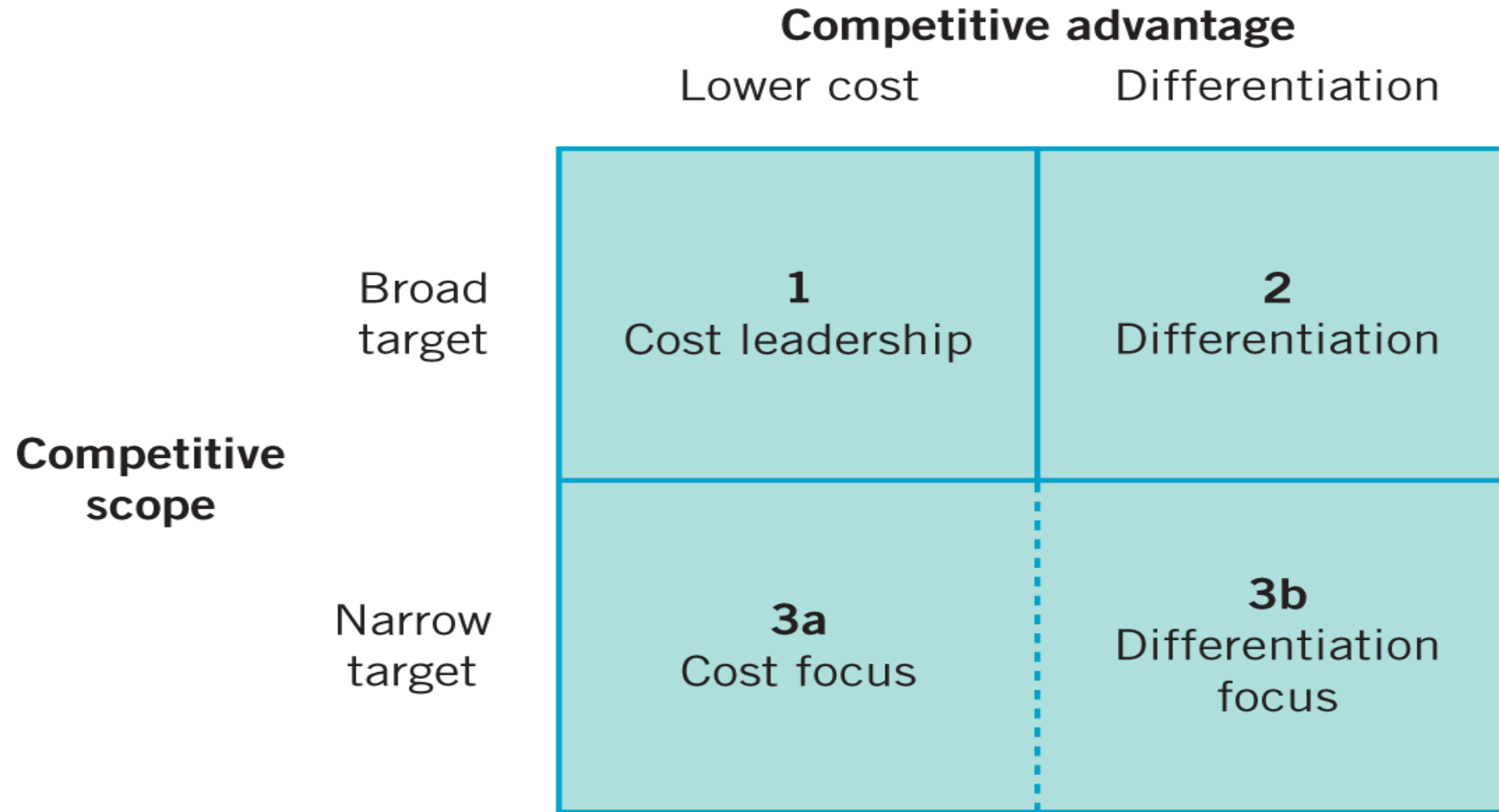
Market Position



Competitive Position Analysis

- How an organisation stands in relation to those other organisations competing for the same resources, or customers as itself
- Essential to ascertain the relative competitive position of an organisation
- Questions...
 - How and where do organisations compete?
 - Which organisations should be used as comparators?
- Leading to Competitor Analysis based on Strategic Business Unit Identification, Strategic Group Analysis & Market Segmentation

Three generic strategies



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Competitive Advantage

Competitive Scope

Broad

Cost Leadership **Lower cost**

- Appeal to price sensitive customers
- Lowest cost producer relative to local or foreign rivals in the market
- Cost leader will make higher profits because costs are lower
- Fully committed to cutting costs throughout value chain
- Control overheads and minimize spending in R&D, marketing and advertising, service, sales force and process innovation
- Achieve cost advantages that are hard for competitors to copy or match
- E.g. K-mart, Walmart, Tesco, McDonald's, KFC, Burger King (not in every market!)

Differentiation

Differentiation

- Seeks to be unique in its industry along dimensions valued by customer
- Higher costs compensated by appealing to broad section of market willing to pay premium prices
- E.g. Apple – focus on design and style which customers are happy to pay a premium for
- Must focus in investing in and developing features that differentiate their products
- E.g. prestige, brand image, innovation, quality or reliability, customer service, or distribution network
- More challenging for subsidiaries of MNEs in developing countries – some manufacturers in China or Poland for example have a reputation for low quality

Narrow

Focused Low-cost

- Emphasis on a **niche market** segmented by geographical region, income level and/or product specialization
- Market niche strategy concentrating on narrow, specific, and recognizable customer segment and competing with low prices – cost leader in its niche
- E.g. hostels offering cheap accommodation for back packers and students

Focused Differentiation

- **Narrow customer segment** and competes through differentiating features
- E.g. Burj Al Arab hotel in Dubai – 7 star hotel with the ultimate personal service
- Offer target market something that they value highly
- Must have a strong brand and understanding of target market's unique tastes and preferences and the ability to offer products with world class attributes

Cost-leadership strategy

- *Cost-leadership strategy* involves becoming the lowest-cost organisation in a domain of activity.
- Example: Walmart, easyJet
- Low cost should not be pursued in total disregard for quality.



Differentiation strategy

- *Differentiation* involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.
- Within each market businesses may differentiate along *different dimensions*.
- *Example: Virgin Atlantic, Waitrose*



Focus strategy

A ***focus strategy*** targets a narrow segment or domain of activity and tailors its products or services to the needs of that specific segment to the exclusion of others.

Two types of focus strategy:

- ***Cost-focus strategy*** (e.g. Ryanair).
- ***Differentiation focus strategy*** (e.g. Ecover for ecological cleaning products).



Being “stuck in the middle”

Not enough of a cost leader, not enough of a differentiator

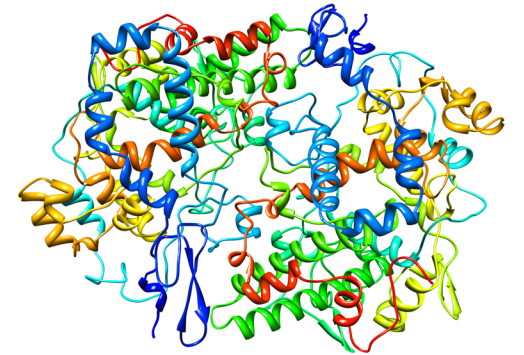


Porter argues strategy is about making bold and clear strategic choices

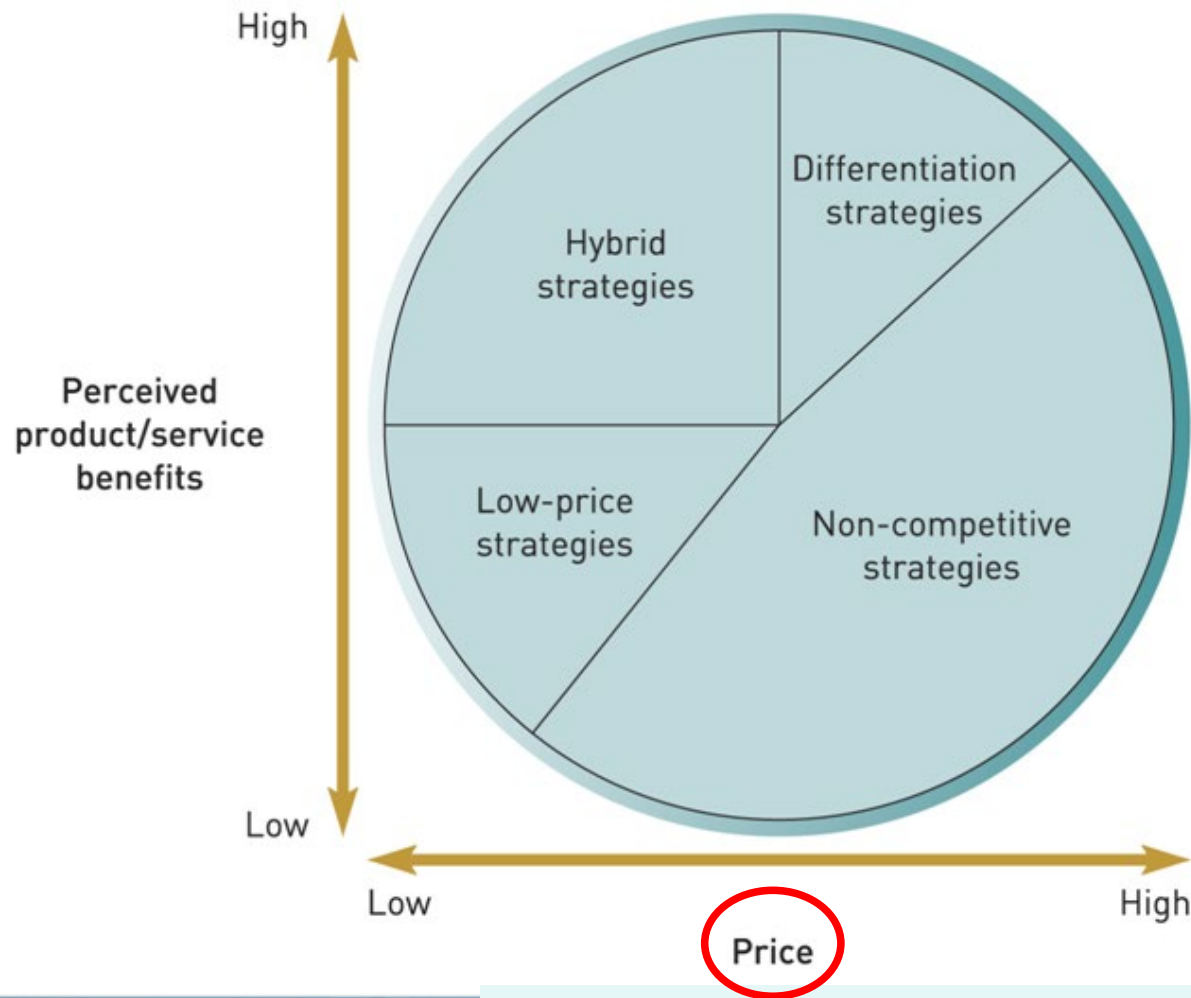
AN ALL OR NOTHING PROPOSITION

Generic strategies model: Criticism

- It assumes a single distinct business focus
- Too simplistic to represent complex issues
- Modern business world too complicated for such categorisation
- The term 'cost' can be problematic: Often we think of 'price', particularly when we are looking at consumer products
- However, it's still valuable in evaluating the 'philosophical' position of the company, i.e. what is the core of the business thinking



Bowman's strategy clock

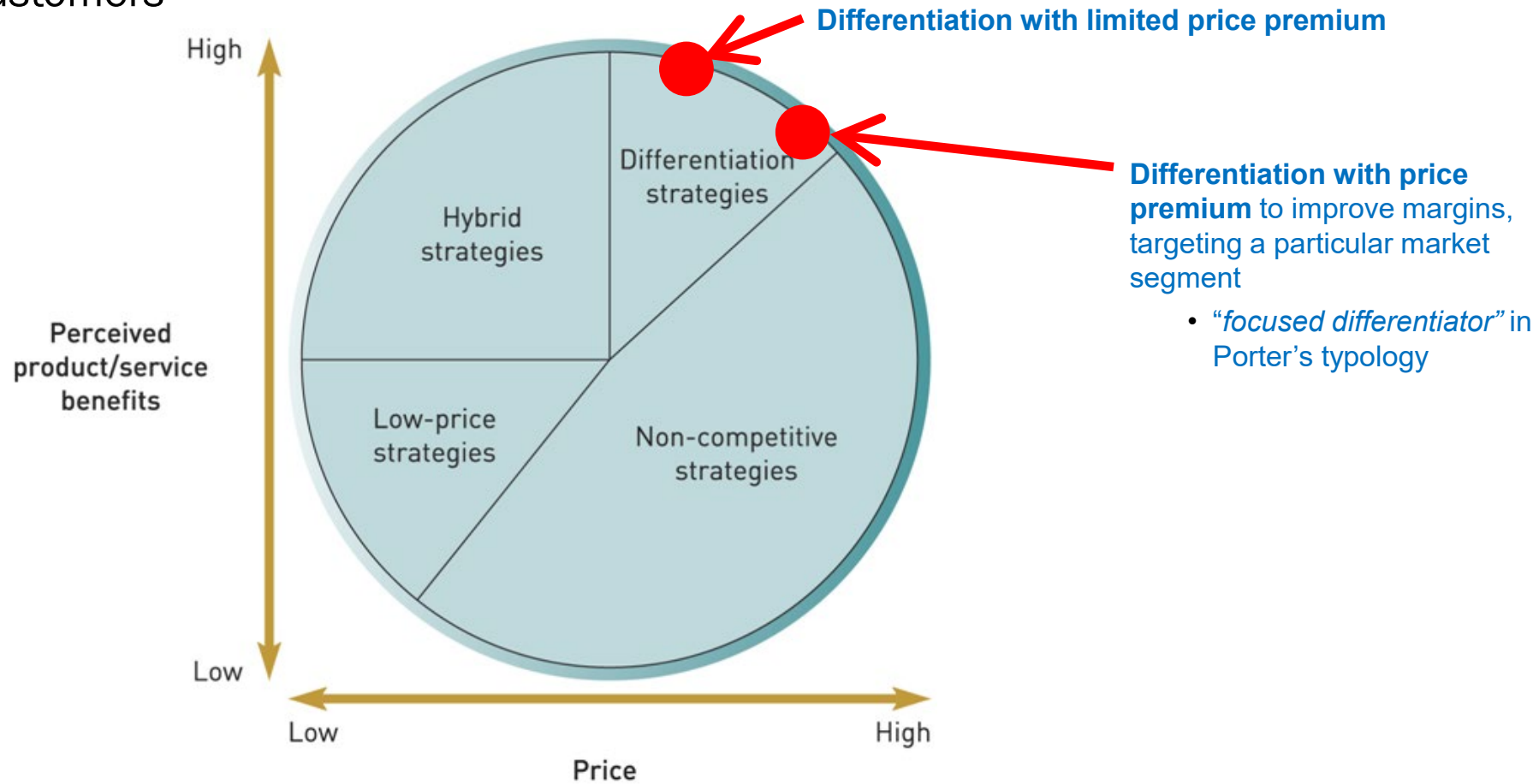


- **Developed by Bowman (1995) it builds on Porter's generic strategies**
 - Identifies a set of suitable and unsuitable choices
- **Key differences**
 - Based on prices, not costs..!
 - **Incremental adjustments** providing a wider range of positioning opportunities
 - e.g. start with a "low price" strategy and gain market share
 - later shift to a differentiation strategy
 - before moving back to a hybrid strategy when threatened by competitors, new entrants, etc.
- **Pitfalls**
 - Blurred boundaries

Note: The strategy clock is adapted from the work of Cliff Bowman (see D. Faulkner and C. Bowman, *The Essence of Competitive Strategy*, Prentice Hall, 1995). However, Bowman uses the dimension 'Perceived Use Value'.

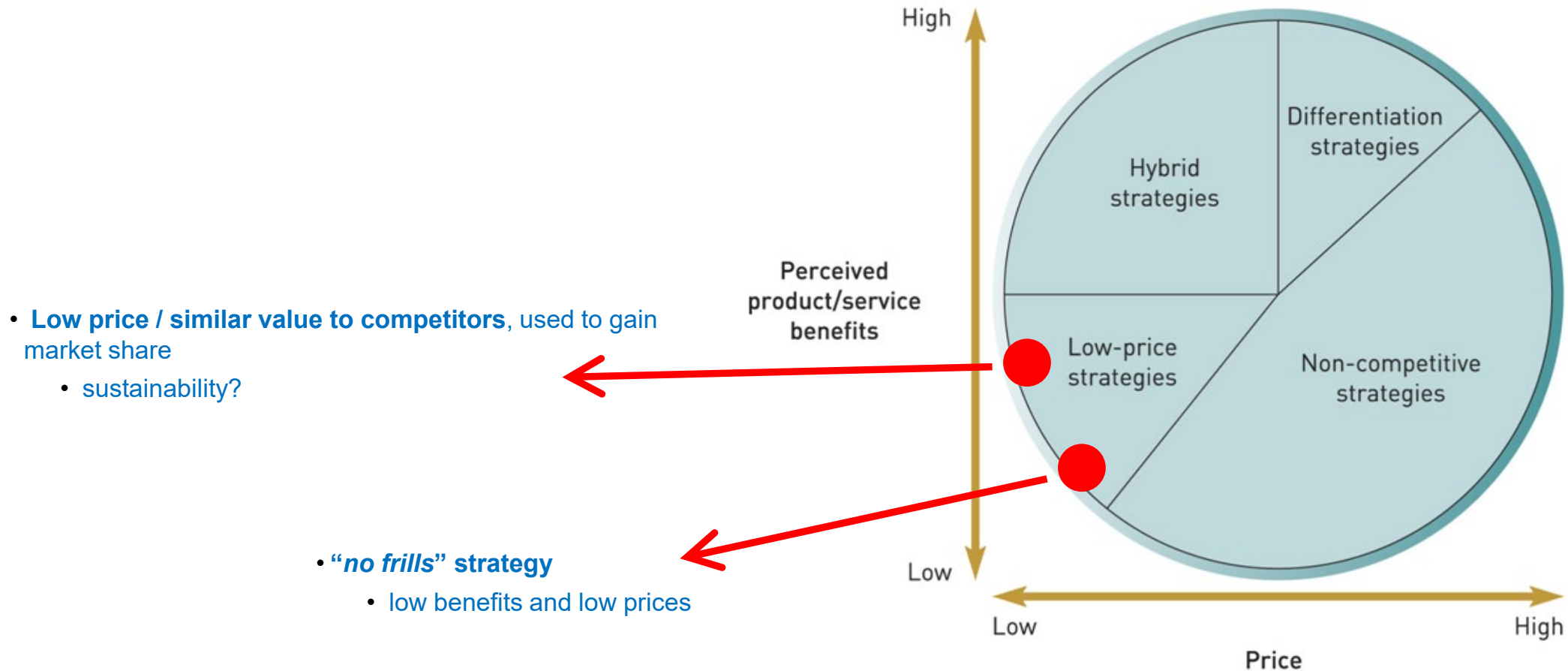
The strategy clock: the differentiation zone

A range of strategies that build on the perception of product uniqueness among customers



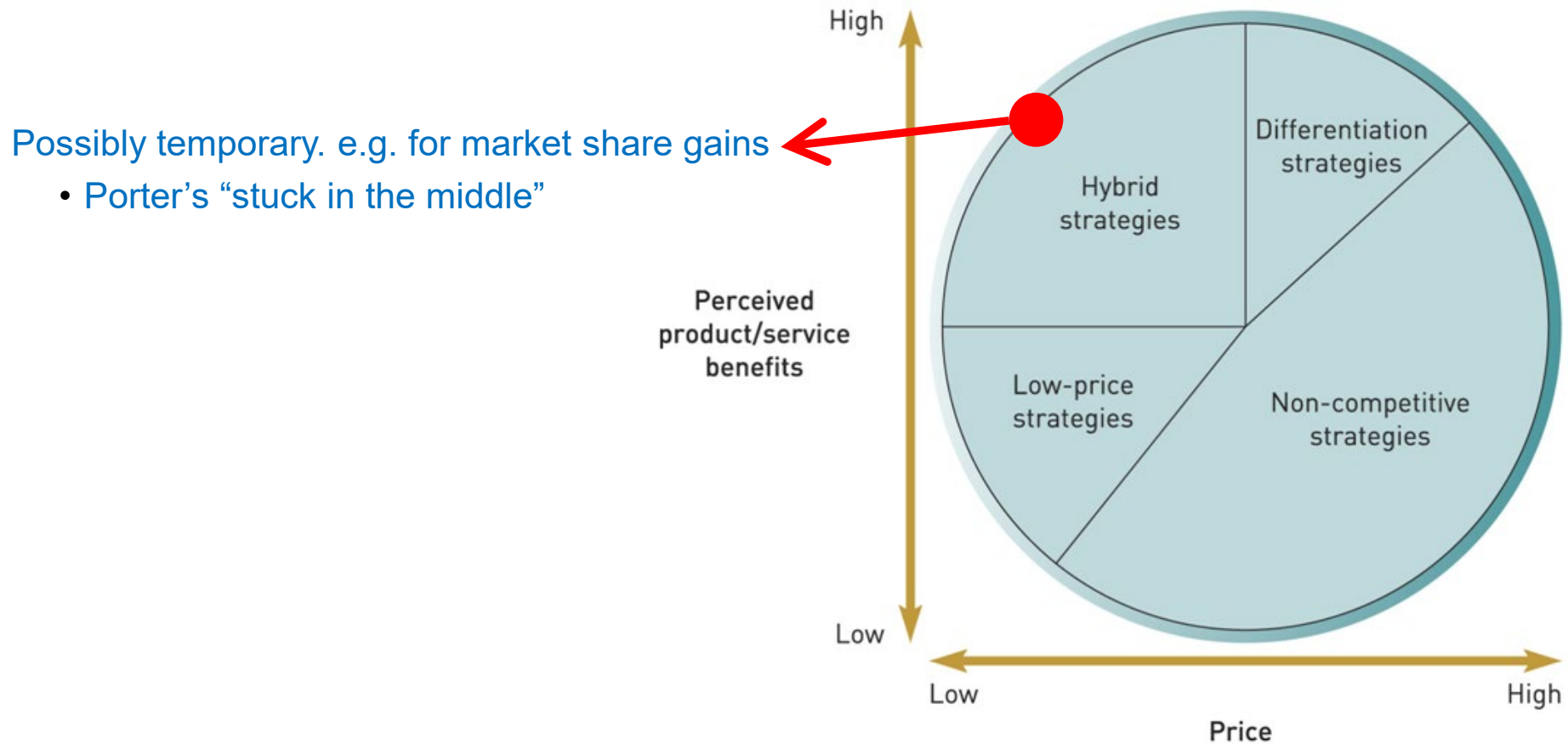
The Strategy Clock: the “low price” zone

A range of strategies based on different combinations of low price and low perceived value



The Strategy Clock: The Hybrid Zone

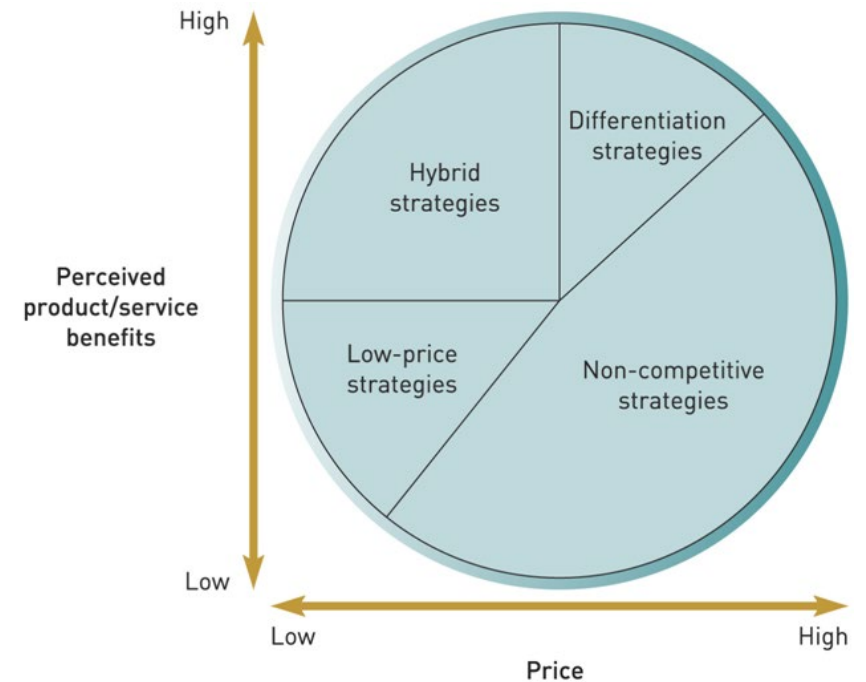
A range of strategies that involve lower prices than “differentiation” strategies, and higher benefits than “low price” strategies



Question

For the hotel choice for assessment 1, select which of Bowmans strategies your brand best fits and be prepared to justify

- i) Consider what evidence you would need to collect to 'prove it.'
- ii) What might the hotels position say about their demand curve and elasticity.



I look forward to seeing you next week.

If you have any questions in the meantime,
please send an email from your student
account

e.wavei@uwtsd.ac.uk

Next week...

Key Characteristics of the Hospitality
Industry and Financial Management
Implications

Role of Finance Manager and Finance
Team

Please have a look at the material on
Moodle, which will be made available
this Friday.

Thank You For Joining

See you next week!

Dr Ernest Balutie Wavei

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