# *Competitiveness of Small Hotels in Jamaica: An Exploratory Analysis*

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# **Research Problem**

*Statement of research question:*

- *How competitive are small hotels in the Jamaican economy?*

# Relevance of the Problem

❑ Increased competition from large and multi-national hotels from Europe and North America has driven a number of smaller hotels in the Jamaican economy out of business (Williams & Deslandes, 2008; Crick, 2006; Hines, 2009; Dunkley 2010).

❑ It appears that the poor performance of these smaller hotels results from their inability to become internationally competitive (Wint, 2003).

❑ Anecdotally, media practitioners and policymakers in the tourism sector have lamented about the un-competitiveness of the small hotels in Jamaica.

❑ However, no serious academic work has been done to determine whether or not this is so.

# **Relevance of the Problem**

❑ Hitherto, there has been very little work on the competitiveness of firms in the Caribbean and more so the services, firms (Wint, 2003; Barclay, 2005; Williams, 2007).

❑ This research will be a departure from the existing works as it will focus on the services sector firms in a specific sub-sector, the small hotels sub-sector.

# **Relevance of the Problem**

A working definition of competitiveness

❑ Enterprise competitiveness is not a uni-dimensional concept but instead, a number of elements have to be taken into consideration.

❑ Wint (2003) notes that organizations are deemed competitive when:

❑ They are able to export to a number of countries

❑ They are able to engage in foreign direct investment (FDI)

❑ They are able to operate at internationally-accepted standards, as pertains to cost, service level, operational standards and quality

❑ They are able to earn above-average returns in a market which includes domestic competitors and (relatively) unimpeded access for rival enterprises from other countries.

❑ Not all firms will fulfill all the characteristics identified, but the rule of thumb that is normally applied is 2 of 4.

# **Relevance of the Problem**

Critical competitiveness drivers:

- ❑  Innovation
- ❑  Industry knowledge
- ❑  International Benchmarking
- ❑  Leadership
- ❑  Factor conditions
- ❑  Quality focus
- ❑  Responsiveness to competition

# **Method:** *The Study Context*

❑ Jamaica's tourism product is comprised of accommodation, attractions and tours, transportation, dining and entertainment (including festivals and events) and, the support services (JTB, 2011).

❑ The sector represented 7.3% of Jamaica's Gross Domestic Product in 2007, with inbound tourism comprising 6.2%, and the remaining 1.1% being generated from domestic tourism (STATIN, 2009).

❑ The Hotels and Restaurants sectors contributed 6.1% to overall GDP in Jamaica in 2010 and employed an average of 78,893 persons in 2009, representing 6.2% of the island's labour force (PIOJ, 2011).

# **Method:** *The Study Context*

❑ Tourism generated total provisional visitor expenditure of US$1,992bill in 2010 (PIOJ, 2011), with the vast majority of these earnings being generated from accommodation services for visitors.

❑ Tourist arrivals in 2010 was 2,831,297, representing a growth of 2.8% over 2009 (PIOJ, 2011).

# **Method:** *Data Collection Strategy*

❑ The sample frame used for the study was the Jamaica 2010 Business Telephone Directory.

❑ This directory has the most comprehensive list of small hotels in Jamaica.

❑ From this directory, a convenience sample was chosen for this study.

❑ This was done because convenience sampling is the least expensive and least time-consuming of all sampling techniques (Malhotra 2007).

# **Method:** *Data Collection Strategy*

❑ Because very little is known about the competitiveness of small hotels in the Jamaican economy, an exploratory study using the case study design was deemed appropriate.

❑ This approach allows the researcher to collect insights into and gain understanding of, the problem addressed by the research question (Malhotra, 2007; Babbie, 2004).

❑ Two hotels were selected from each of five resort areas in Jamaica, and one hotel from Montego Bay, the other resort area.

# **Method:** *Data Collection Strategy*

❑ A semi-structured instrument with questions looking at the various drivers of competitiveness as reflected in the literature review section was the main instrument used to collect the data.

❑ Only independent hotels were chosen, as chain hotels have the advantage of gaining economies of scale, thus the results would have been biased.

# **Method:** *Data Collection Strategy*

❑ Telephone interviews were also conducted with representatives of the Ministry of Tourism, Tourism Product Development Company, a former employee of the Small Tourism Enterprise Programme and the Jamaica Hotel and Tourist Association's (JHTA) Competitiveness of Small Hotels Project, as well as the Chairperson of the Small Hotels Committee of the JHTA

## Key informant

❑ Personal telephone interviews were conducted with ten hotel industry personnel from the six main resort areas in Jamaica (Negril, Montego Bay, Ocho Rios, Port Antonio, the South Coast and Kingston).

❑ These persons included Hotel General Managers and an Assistant to a General Manager. One face-to-face interview was conducted with a Reservations Manager of another hotel.

# **Method:** *Data Collection Strategy*

Definition terms

❑ *"Hotel means any building, or group of buildings within the same precinct, containing or intended to contain, when complete, an aggregate number of not less than ten bedrooms and facilities for meals for the accommodation of transient guests, including tourists, for reward, together with the precinct thereof, and all other buildings and structures within such precinct"* (Ministry of Justice 2011).

❑ The definition of "small hotels" being posited in this study is a hotel that has ten (10) to one hundred (100) rooms.

❑ This is linked to the above definition of "Hotel", and is in keeping with the definition adopted by the Jamaica Hotel & Tourist Association.

# **Method:** *Data Analysis*

❏ The qualitative analysis techniques used in this study were those presented and explained by Babbie (2004).

❏ The purpose of the analysis was to discover underlying meanings and patterns of relationships, all with the aim of enabling the researcher to arrive at a conclusion.

❏ The data were first coded according to the key areas: profitability of the hotels, innovation, industry knowledge, international benchmarking, leadership, factor conditions, quality focus and responsiveness to competition.

❏ These covered the performance indicators being used in the study for answering the research question.

# **Method:** *Data Analysis*

❑ Patterns in the data were then identified based on six factors:

1) The frequency with which the competitiveness drivers were identified across the entities

2) The magnitudes or extent to which the drivers existed, and the magnitude of profit or loss

3) The structure of different elements identified in the data, and any particular relation between them – for example, the presence of different types of innovation

4) The processes or order among the elements of structure

5) The causes related to the findings

6) The consequences of the findings to the hotels. Cross-case analysis facilitated the examination of all eleven cases considering the examination of the key performance indicators.

# Method: *Data Analysis*

❑ The dependent variable was competitiveness, as represented by profitability.

❑ The drivers of competitiveness were then cross tabulated with profitability of each hotel to identify the relationship with profitability.

❑ From this analysis, it was then deduced whether or not the drivers of competitiveness were present in competitive (profitable) small hotels. The findings from this analysis are presented in the subsequent section.

# Findings

**Hotel Profitability**

- Competitiveness is partially measured by profitability (Snowden and Stonehouse, 2006), or more specifically, by whether the firm achieves above-average returns (Wint, 2003).

- According to PA Consulting Group (2006), occupancy percentage and average rate are key operating ratios used by hotels to gauge their profitability.

- In this study, hotels' profitability was measured using their occupancy levels and whether they discounted their rates during the period under study (i.e., 2005 to 2010).

- The Jamaica Tourist Board (JTB) has determined that about a 60% annual average hotel room occupancy level is acceptable for the Jamaican hotel industry (JTB, 2003).

- From JTB analysis, this average represents break-even point.

# Findings

**Table 1.** Average occupancy percentages (2005-2010)

| Hotels | Average Occupancy Percentages | Discounting |
|---|---|---|
| Hotel A | 80% | No discounting |
| Hotel B | 70%-80% | Always discounted rates; most times heavily discounting |
| Hotel C | 40% | Most times offered discounted rates |
| Hotel D | 20% | Discounted rates sometimes |
| Hotel E | 38% | Always discounted rates |
| Hotel F | 10% | Discounted rates sometimes |
| Hotel G | 45% | No discounting |
| Hotel H | 50% | Rarely discounted rates |
| Hotel I | 30% | Most times offered discounted rates |
| Hotel J | 70% | Heavily discounted rates 8 mths/year |
| Hotel K | 50% | Offered discounted rates regularly |

# **Findings**

**Table 2.** Profit levels of the hotels

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| Hotels | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------|------|------|------|------|------|------|
| Hotel A | s | s | s | s | s | s |
| Hotel B | m | m | m | m | n | n |
| Hotel C | n | n | n | n | n | n |
| Hotel D | m | m | m | m | n | n |
| Hotel E | n | n | n | n | n | n |
| Hotel F | n | n | n | n | n | n |
| Hotel G | m | n | n | n | n | n |
| Hotel H | m | m | m | n | n | n |
| Hotel I | n | n | n | n | n | m |
| Hotel J | n | n | n | m | n | n |
| Hotel K | n | n | n | n | n | n |

**Key: s** – significant (70%-80% occupancy and above, without discounting rates); **m** – minimal (just above 60% occupancy, without discounting rates); **n** – none (less than 60% occupancy)

# **Findings**

❑ Drivers of competitiveness

**Table 3.** Competitiveness drivers per hotel

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| Hotels | I | L | FCs | QF | IK | IB | RC | Profits ('05-'10) |
|--------|---|---|-----|----|----|----|----|-------------------|
| Hotel A | * | * | * | * | * |  | * | s |
| Hotel B |  |  |  |  | * |  | * | m/n |
| Hotel C |  |  | * |  | * |  | * | m/n |
| Hotel D |  |  |  |  | * |  | * | m/n |
| Hotel E |  |  | * |  | * |  | * | m/n |
| Hotel F |  |  |  |  |  |  | * | m/n |
| Hotel G |  |  | * |  | * |  | * | m/n |
| Hotel H |  |  | * | * | * |  | * | m |
| Hotel I | * |  |  |  | * |  | * | m/n |
| Hotel J |  |  |  |  | * | * | * | m/n |
| Hotel K | * |  |  |  |  |  | * | m/n |

**Key**: **I** – Innovation; **L** – Leadership; **FCs** – Factor Conditions; **QF** – Quality Focus; **IK** – Industry Knowledge; **IB** – International Benchmarking; **RC** – Responsiveness to Competition; **s** – significant; **m** – minimal; **n** - none

# Findings *(Cont'd)*

❑ The aim of this work was to better understand the level of competitiveness among small hotels in Jamaica's tourism industry.

❑ The theoretical lens of enterprise competitiveness as espoused by Wint, 2003; Porter, 1980; Williams 2007; Barclay, 2005 etc, was used to analyse the data under consideration.

❑ The analysis reveals very clearly that the small hotels in this sample are not competitive.

# Findings *(Cont'd)*

❑ They generally lack the major drivers of competitiveness which the extant literature points out as critical to drive enterprise competitiveness.

❑ The majority of firms conflate competitiveness with price competition and as such, they all compete in the market place based on price.

❑ They do not carry out innovation, benchmarking, operate at international standards of quality, and are generally very slow to respond to opportunities in the highly competitive market place.

❑ The lack of these competitiveness drivers has resulted in the majority of firms not being able to operate profitably over the six-year period under review.

# Concluding Thoughts

❑ The findings from this study point into one direction and that is, price competition is not sustainable for small hotels.

❑ They are unable to compete on price with larger all inclusive hotels due mainly to their inability to generate economies of scale in production and distribution.

❑ Therefore, for these firms to have a chance of survival in the market place, they will have to refocus their competitive strategy on differentiation and not price.

❑ It means that they will have to start getting into place, the necessary drivers of competitiveness such as innovation, benchmarking, quality standards etc.

# Thank You!