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Thomas Lea Davidson

Davidson Associates, Inc., [null@davidsonassociatesinc.com](mailto:null@ davidsonassociatesinc.com)

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Abstract

Primary market research and sound marketing analysis based on this research can make a significant contribution to the accuracy and usefulness of feasibility studies in planning for travel, leisure, tourism, recreation/entertainment, and hospitality development. The author contends that changes in the marketplace will increase the need for primary marketing research in the future.

Keywords

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Primary Market Research: Its Role in Feasibility Studies

by
Thomas Lea Davidson, CEO
Davidson-Peterson Associates, Inc.
New York

Primary market research and sound marketing analysis based on this research can make a significant contribution to the accuracy and usefulness of feasibility studies in planning for travel, leisure, tourism, recreation/entertainment, and hospitality development. The author contends that changes in the marketplace will increase the need for primary marketing research in the future.

A number of executives involved in tourism development have begun to question the adequacy in today's marketplace of traditional methods—or at least the results of traditional methods—of determining the future success of a proposed accommodations facility, attraction, or service provider to the travel and tourism industry. In fact, a number of industry ills such as overbuilding, or the failure of some developments to achieve a profitable condition because income does not meet expectations are increasingly being blamed on faulty feasibility studies.

Clearly not all—possibly even not most—feasibility studies are flawed. Many excellent studies have provided sound guidance to developing new facilities or rehabilitating existing ones. And some of the “attacks” on feasibility study techniques are nothing more than attempts to find a scapegoat for management failures. In other situations the studies themselves were fine, but changes in the external environment—changes that could not be forecast readily—quickly made their conclusions out of date. But for an increasing number of situations, the problem appears to be derived from the inability of traditional feasibility study methods to estimate future market conditions adequately and, more importantly, to estimate actual revenues.

The author has been involved in a number of situations where the task at hand was to determine why results had not mirrored what the feasibility studies had predicted. A pattern quickly developed. The problem was not in estimating the capital investment required, nor in estimating the costs required to operate the property or facility. The real problem was in estimating the number and type of patrons who would be attracted and the prices they would pay. This failure to understand the unique dynamics of the local marketplace from which business must be taken led to a failure to achieve sufficient revenue to create a profitable venture.

Primary market research and sound marketing analysis based on this research would make a significant contribution to the accuracy and usefulness of feasibility studies. Further, changes occurring in the marketplace will increase the need for primary marketing research in future years. Primary market research and sound marketing analysis focus the development decisions on issues such as increasing or even maintaining market share, what marketing efforts (and costs) are required to compete effectively, and how changes in the composition of demand will influence marketing success. In today's marketplace these are key issues in planning for travel, leisure, tourism, recreation/entertainment, and hospitality development.

What has changed? Why is a new approach needed? Ignoring—as some might argue—that many feasibility studies have always been flawed but that the flaws were not that important in yesteryear's market conditions, why is there a need to modify procedures today? Why should those involved in the development process be required to pay the additional costs of adding primary market research and marketing analysis to feasibility studies—and these additional costs may exceed the \$10,000 to \$15,000 range?

These are good questions. The answers can be found in understanding two issues: increased competition in a maturing marketplace and changes in the expected role of feasibility analysis to include more guidance for the development process.

Increased Competition Is Occurring in a Maturing Marketplace

The first factor that influences the need for more (and better) primary market research is the increased role of competition in determining market penetration and success. Increased competition means that the key to achieving acceptable revenue levels is the ability to take business away from someone else—a competitor. Often this competitor offers equal location convenience (located on the other side of the same intersection) and a comparable amenity package. Revenue success requires persuading prospective visitors to select your property instead of the other one(s). This persuasion is the task of marketing and predicting the effectiveness of marketing requires primary market research. Marketing may be viewed as persuading potential customers to “buy” from you—customers who in the absence of your marketing would buy from someone else. The battlefield for marketing is the mind of the prospect. The better we know the terrain—understand the battlefield—the better our chances of winning. Primary market research is the way we learn about this terrain, understand the decision process of our prospect, and determine the cost and probability of success.

Traditionally the three determinants of success have been viewed as the classic “location, location, location.” When this view predominates, then the developer's task is to determine where demand is growing, select a convenient location in front of that demand growth, build

an attractive facility, and operate it well. Thus, the key issues are investment (build) and cost (operate). This viewpoint is particularly appropriate when demand is growing more rapidly than supply, as was the situation for many years after the 1940s. When supply growth caught up and surpassed demand growth, and with the advent of near or actual parity in location convenience as well as building and operating skills as often is the situation today, then the underpinnings of success (profit) changed. Success now depends more on marketing, on increasing share, on attracting new business. This scenario has become commonplace and underscores the role of primary market research in feasibility studies.

There are five key characteristics of today's competition that are important to feasibility analysis:

- **Maturity.** The travel and leisure market is becoming increasingly mature. Maturity means increasing product parity (some customers say hotels are becoming a commodity), more focus on market segmentation, price, and positioning—that is, more focus on future marketing change than on the continuation of historic trends.
- **Excess capacity.** There is strong indication that the supply of travel facilities and of the tourism infrastructure is growing and will continue to grow faster than the demand for these facilities. The result is a continuing overbuilt condition where excess capacity is the rule or norm.
- **Reduced rates of market growth.** While demand is growing the rate of growth is less than it has been. Revenue is less likely to come from growth in total demand and more from taking business away from a competitor.
- **A more sophisticated consumer.** Not only are consumers better educated, but they are far more experienced travelers. Approximately three quarters of us have been in a plane, three times what it was a few years ago. A more sophisticated consumer knows what to expect, demands better service, expects to be treated well, and is quick to shift market loyalties when expectations are not met.
- **An aging plant.** At a time when many facilities are aging and losing competitive share to new facilities, accurate revenue analysis requires the ability to understand how consumers perceive the supply of rooms and then decide where to stay or eat or recreate. Many destination areas are approaching this “aging” condition.

All these characteristics underscore the fact that growth in and maintenance of a share of market is the key. Adequate development analysis requires that we understand how these factors will affect each development decision. Focusing on share means we must clearly define

the target market(s), define what these markets perceive to be competition, and design marketing that will take business away from competition. And, this focus means a need for more effective primary market research.

New Roles Are Created for Feasibility Analyses

Recognizing the changes that are occurring in the marketplace, development management is placing an increasing requirement on feasibility studies to guide the strategic, and even tactical, development of their new ventures. As already suggested, questions of target market segmentation, positioning, selecting the unique selling proposition, designing tactics for communicating with the marketplace, deciding on the ambiance level, and selecting the facilities mix are critical questions requiring sound answers in the development process. With increasing frequency feasibility studies are being required to address these questions. Or, if not already being required, they should be, for sound answers to these questions are becoming key to achieving profitable revenue levels. To address these questions, feasibility studies will require primary market research and sound marketing analysis beyond the scope of traditional feasibility analysis. And the answers to these questions are needed early in the development process so that they can be integrated in the process of planning and building the new facility.

In essence, there is ample evidence that change is required, that new demands are being placed on feasibility studies, and that adding effective primary market research to the feasibility analysis process is an effective way to address these needs, improve the accuracy of feasibility analysis, and increase the contribution of feasibility studies to the development process.

The premise on which this argument is based—that effective primary market research should be an integral part of feasibility analysis—is not without controversy. The argument will not be accepted by everyone. Probably it should not be. There are undoubtedly situations when primary market research is not worth the cost. And, more importantly, only from dialogue—both pro and con—can the art and science of feasibility analysis be advanced. More understanding of the role of primary market research and more inclusion of this technique are required if most feasibility studies are to become more useful.

What Is Primary Market Research?

Primary market research (PMR) might also be called original research with existing and potential consumers or buyers. It involves the process whereby representatives of various market segments are directly queried to determine their attitudes, perceptions, expectations, behavior, satisfaction with existing products, future intentions, decision-making (buying) processes, and potential reactions to future events or product developments. The key is that the researcher goes to the prospects and asks questions first hand rather than relying on the

statements of third parties to suggest what the potential customer thinks or does.

A number of techniques are available for primary market research. These might include:

- focused group discussions wherein a group of eight to ten representatives of some target market segment are led through a discussion of perceptions, images, beliefs by a trained moderator;
- telephone interviews with current guests to assess their satisfaction with existing facilities, their loyalty to their current host, and what it would take to make them switch to a different (new) facility;
- a mail survey with former or with prospective guests;
- interviews—by mail or telephone—with members of the travel trade such as meeting planners, group tour operators, travel agents; or company travel departments; and
- a survey among local business executives and/or their secretaries to determine what they recommend to out-of-town guests who ask for suggestions for places to stay, eat, be entertained, or recreate.

This list is not exhaustive. Many survey techniques are available to the market research practitioner. There exist a number of productive marketing research tools which, when used properly by a trained research professional, can make a significant contribution to making feasibility analysis more effective and more accurate.

The key is “proper use” by a professional experienced in the methods and procedures, the sampling process, the ability to write valid questionnaires, and the myriad of technical questions which must be solved to produce reliable results.

Primary Market Research Contrasts with More Traditional View

It may enhance our understanding of primary market research to contrast this technique with the more traditional view of how to perform market analysis. For the sake of brevity and clarity, this comparison will be presented in a simplified form without getting into the depth of analysis or sophistication of the experienced analyst.

Much traditional market analysis and, hence, the determination of expected share, occupancy for lodging properties, and gross revenue relies on two phases:

- a detailed inventory and evaluation of existing (or proposed if known) supply of rooms, restaurant seats, attractions or whatever is felt to be competition in the area where the proposed development will be sited. The inventory is derived from visual, on-site inspection and talking with the competitors themselves. What is competitive is defined by the analyst based on the existence of facilities and their current performance, not on the views of customers. Competition is defined more in terms of available facilities than in the actions of competitors to influence market behavior.

- the enumeration and analysis of so-called “generators” both existing and future (as known). Reference is made to secondary listings, on-site inspections and talking with local operators to determine trends and expansion or growth plans.

The reliance on these two phases seems to be based on two assumptions:

- that product follows market (supply follows demand) and the presence of product is the main if not the sole determinant of share,
- opportunity can be defined in terms of existing and future generators

These assumptions may be valid when demand is growing rapidly and competitive posturing is less important. They presume that there is little need to learn anything from the tourist or the traveler about his or her preference, needs, or decision process. This scenario appears to be less valid when competition is intense and individual decision making is more important.

Let us return to the role of “generators.” They are especially important when assessing the demand for a hotel or motel property. “Generators” can be defined loosely as those businesses, attractions, or transportation facilities that are the *raison d’être* for people to travel. It is true that few guests stay at a hotel or motel just for the pleasure of spending time at that property. Paying guests are there, primarily, because they have a need or reason to be in the area, and therefore have a need for a place to stay. They may be visiting someone, doing business, patronizing an attraction, or just passing through. It is this reason to travel that creates total demand for accommodations.

Clearly this reasoning breaks down when the hotel or motel attempts to become a primary destination. The growth of mystery weekends, wine-tasting parties, and special event packages are examples where properties are trying to become “generators” all by themselves. The situation with resorts and attractions themselves is also less dependent on an external “generator.” Here the facility itself is the generator of business.

Another way to compare the two approaches is to look at the underlying premise about what controls the future. The traditional, supply-driven approach to market analysis appears to assume that the future is truly determined by the past, that an accurate assessment of future market conditions can be based on projecting past trends, so all we need to study is these past trends. Demand-oriented analysis recognizes that business has some control over the future, that marketing is a force for change, and that previous trends may not continue.

In essence, the development of tourism as a major industry, the dramatic growth of the short pleasure trip at the expense of the two-week vacation, and competitive over-capacity where one’s sales and revenue success depend on prospects making a conscious decision to

select you instead of a comparable competitor, all suggest that reliance on an analysis of supply and of generators is not sufficient for adequate feasibility analysis. Primary market research is required to address the ability of the "development" to influence the prospective customer's decision process.

Resistances Hinder Primary Market Research

It would appear rational to ask—given what appear to be compelling reasons for change—why primary market research has not been included to a greater extent in doing feasibility studies. Or, stated another way, what are the resistances that need to be overcome before the need for primary market research will be more widely accepted. There are at least five factors that need to be considered.

First, those conducting feasibility studies have been traditionally accountants or their roots are derived from accounting and/or financial analysis. The focus of these professions has been traditionally on precision in numbers and the techniques and standards of accounting. This viewpoint has tended to find the less precise approach—or at least the less precise numbers—of psychology and marketing unacceptable for projecting performance. In fact, few traditional feasibility analysts have any training or experience in primary market research techniques and procedures. Thus, these analysts have not been inclined to include primary market research in their efforts or to devote the effort required to do primary market research well.

Second, complementing the accountants' views is the need for some feasibility studies to meet strict requirements established and enforced by securities regulations. These regulations are based on accounting standards and often written to "protect" investors rather than to help make better development decisions.

Maybe there is need for a set of double numbers much like businesses which keep two sets of books. Thus, they may have both a set of cash records and a set of accrual records to report financial performance. There might be a set of supply or accounting driven numbers to meet financial reporting requirements and a set of demand driven estimates to help management decide whether to proceed and how to proceed should the opportunity appear to be favorable.

Note both of the above are supported by a view frequently held by developers or lenders that the only purpose of a feasibility study is to help secure financing for some venture that their "gut" tells them is a sure winner. Thus they only want the least expensive document that will meet the financial institution's requirement to have a "favorable" feasibility study to make the financing of the venture appear to be prudent. There is no pressure to do anything but reduce cost and be "acceptable." While the author has no direct evidence, he believes that there must be a correlation between such studies and less successful developments.

Third, the historical method has worked. In fact, many feasibility studies have presented accurate forecasts, or predictions, or estimates

of what does happen. The problem is that many do *not* do so and these less successful studies may be on the increase. Unfortunately, it is difficult if not impossible to predict into which class a given study will fall—accurate or not accurate—until the future is now.

Fourth, the primary market research supported feasibility study is more property specific and thus makes the practice of reselling a study—with modest changes of course—to a second or third project much more difficult. The need to do more work the second time negatively influences the economics of doing feasibility studies.

And, finally, there is cost. While it may be short-sighted to be too cost-conscious, the simple fact is that it takes dollars and time to do primary market research, and many in the development process are unable or unwilling to spend these additional dollars. We need education as to the value of primary market research, of course, but the resistance to spending money will always be there.

The author was involved in a project whose task was to determine why a number of leisure projects—all in the multi-million dollar category—had failed to meet their anticipated profit levels. Most, in fact, had generated losses. The answer was simple. In each case the problem lay in faulty estimates of prospective revenue contained in the feasibility studies. These estimates were not based on primary market research. Many included averages for occupancy, visitation, or receipts that, while true representations of regional performance, just did not work for the specific property being considered. Averages may work sometimes but not in a competitive, atypical, or locally unique situation such as that found in most travel and tourism markets.

In a second example, a hotel manager who had just bought a property only to find unanticipated costs required to compete for share, stated that had he had the benefit of primary market research with guests, the price paid for the property would have been more than a million dollars less. Primary market research would have cost about \$12,500 in that situation.

The message is clear. Developers, lenders, managers, and others involved in the development process would be well advised to seriously consider including primary market research and sound marketing analysis based on this research as a key ingredient for feasibility analysis. In today's marketplace it could be the most important component.