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What is Your Hotel's Market Share and Market Penetration?

By

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First there was Occupancy Percentage (Total Rooms Occupied divided by Total Rooms Available for Rent) and Average Daily Rate (Total Rooms Revenue divided by Total Rooms Occupied) as the hotel's base measurements of success.

Then along came RevPar (Total Rooms Revenue divided by Total Rooms Available for Rent). Now that we have grasped the importance of this measurement, we have Market Share and Market Penetration also as a tool to gauge our hotel's Marketing success.

What is Market Share?

Market Share is the number of rooms in our hotel as a percentage of the rooms in our hotel's competitive market set. *Market Set* is the total number of rooms we are in direct competition with, within our area's market and/or segment.

Assume:

1. We are a full-service, 200-room Holiday Inn. Our Market Set is other full-service hotels that we are in direct competition with—i.e., Ramada Inn, Hilton Inn, etc. Not included in the market set would be high-end—Hyatt and Marriott—or the lower end of the market segment of limited-service, such as Super 8 or Motel 6.
2. A survey of the area reveals the total rooms of our competitive Market Set is 1,000.

3. Our Holiday Inn (200 rooms) divided by Total Market Set (1,000) equals our Market Share of 20%.

As upper mid-priced, full-service hotels are added or leave our Market Set, or our room count is adjusted, our Market Share percentage will change. **The larger the Market Share percentage, the bigger player we are in the market.**

What is Market Penetration?

Market Penetration is the percentage of demand for rooms actually accruing to our Holiday Inn. It is calculated as the ratio between the Total Rooms Occupied in our hotel against the Total Rooms Occupied collectively attributed to our hotel's Market Set.

Assume:

1. Research of our competitive Market Set of 1,000 rooms revealed an average aggregate Market Occupancy of 70%.
2. Our Holiday Inn is experiencing an occupancy of 65%.

Step One:

Total Market Set of rooms 1,000
× Market Occupancy 70%
× 365 days -
= Total Rooms Occupied
of the Market Set . . . 255,500
× our Market Share 20%
= our goal of Rooms
Occupied we should
be achieving 51,000

Step Two:

Convert our actual occupancy of 65% into 47,450 Rooms Occupied. Divide our actual number of 47,450 Rooms Occupied by our goal of 51,000 Room Occupied, thus our Market Penetration is 93%.

Not good. We must strive to be equal to or better than our competitors. Market Penetration must be at least 100%, and to be the leader in the Market Set, well over 100%. What is wrong?

- Location, fixed – no solution, signage may help.
- Wrong franchise—possible.
- Wrong data in determining the primary guest market.
- Lack of marketing dollars to reach that primary market.
- Lack of management sales effort.
- Lack of sales tools.
- Wrong room mix.
- Old decor.
- Wrong amenity mix.
- Unfortunate reputation.

The list can go on. However, when certain key wrongs are corrected and the property achieves an occupancy of 82%, **the Market Penetration will be 117.4%, and possibly the leader of the pack!**

There are hotel management companies requiring a Market Penetration percentage each week from their hotels as a measurement of the hotel's total marketing success. However, month-end monitoring seems reasonable, and we can even enroll in the Smith Travel

Accommodations Report (STAR program), which will calculate and track our hotel's Market Share and Market Penetration each month. To enroll in the STAR program, contact Smith Travel Research, 615/824-8664, who will need from you:

1. Our list of competitive hotels in our Market Set (STR will obtain the occupancy of these competitive hotels from their parent chains); and
2. Our Total Rooms Available for Rent and Total Rooms Occupied.

Star Travel Research will only report the aggregate occupancy of our Market Set. They never release or divulge information on an individual property or chain.

If we wish to calculate Market Penetration for ourselves, the key is obtaining our Market Set competitors'

occupancy. In certain cities, the Convention and Visitors Bureau collects the individual property data and disseminates the occupancy in requested Market Sets (not by individual hotels). In other locations, hotels share their occupancy percentages on a nightly and weekly basis. And in other areas, the hotels are fierce competitors and share nothing.

If that is our case, then count our competitors' cars within our Market Set. We used to count closed windows draperies, but with room energy savings techniques, this is no longer accurate. Fellow AAHOA member Tek Chand of Augusta, Georgia, has car-counting down to a science within his portfolio of hotels.

He has either the Night Auditor count the competitors' cars at 10:30 p.m. or the Evening Desk Clerk at the end of the previous shift. Then the car

count (bus = 20 rooms) along with weather and special events, is recorded in his computer. His accuracy and confidence is well documented in that he will retain retired persons to count cars at hotels in various locations for up to a year prior to the building a new hotel and lenders have inquired to him as to hotel market conditions in specific locations.

After we have obtained the occupancy data of our competitive Market Set, then we can complete the calculations. Market Penetration graphically tells us how we measure up to our competition regardless of market conditions. ■

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