# Market share vs. profits—an oxymoron

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Webster's Dictionary defines "oxymoron" as "a combination of contradictory or incongruous words." And recent comments by some industry experts suggest the following two statements are mutually exclusive:

1. Hotels are more worried about revenue than revenue per available room.
2. They are more concerned about market share than profits.


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I'm confused. First of all, we all know the hotel business is a high fixed-cost, low variable-cost industry. In this regard, incremental revenue generated at the top line has an exponential impact on the bottom line. And I have NEVER seen a higher RevPAR produce a lower profit. I suppose it's possible, but it's highly unlikely because of the high-fixed/low-variable relationship. It's also unlikely because the industry is notorious for devoting copious amounts of time to cost containment; in other words, more precious management time is spent on tightening belts than driving revenues, and guests and employees see the inevitable outcome firsthand.

So let's dissect the pundits' comments. If a hotel elects to steal share (heads in beds) by lowering rates, that certainly does not automatically translate to lower profits. If, as some would believe, hotels are more worried about cash flow than RevPAR, it implies that RevPAR will suffer. The missing piece, in my view, is the individual circumstances of a single hotel. In any business there's a huge difference between cash flow and profitability.

So how can a hotel find its own "tipping point" if it chooses to grab market share by dropping rates? Is it, in fact, generating a higher RevPAR than it would have had they done nothing?

Hotels assume they are and then look at their monthly Smith Travel Accommodation Report to see if market share has increased. But market share indices are only a piece of the puzzle. Every hotel has to determine what the optimal balance is between its occupancy and rate indices. Unless a hotel is a hugely dominant player in the marketplace, the variance should be no greater than 10 points over the course of a year. This level of balance is proof that the hotel drove rate when it could and volume when it had to.

**The balancing act continues**

So index balance certainly is a start, but we can't stop here because taking the "either/or" approach is fundamentally flawed. It's not either revenue or RevPAR. It's not either market share or profits. It's profitability based on the entire asset.

Here it's necessary to move to the next metric and take a very close look at gross operating profit per available room and gross operating profit per occupied room. Are these metrics up? Down? Static? What are reasonable GOPPAR and GOPPOR benchmarks? To answer these questions, we can't afford to take an aggregated approach to measuring profit. The question is: "What particular mix of business produces the highest overall profit given the market conditions?"

The 2010 budget season finally is over. How many hotels drilled down into market segment profitability sufficiently to determine the strongest profit potential based on business mix? Gaining market share in tough times often is the goal in a down economy, but that goal's only valid if the increased share translates to increased profits. A higher RevPAR means higher profits—but a severely unbalanced approach to the market may mean the increased share still leaves money on the table.

Finally, it may appear to some readers that I'm advocating price discounting. That certainly is not the case. There are all kinds of revenue management strategies and tactics that can be deployed that don't rely on price as the primary line of attack, and my recent columns outline several of these. The key is to isolate profitability metrics with sufficient detail to identify optimal business mix. Then the market share or profit and revenue or RevPAR arguments are irrelevant.

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