

“Solving the Mysteries of Market Indexes”



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In this day and age we have access to an extraordinary amount of market intelligence. However, the reality is that although we have this information, it does not mean that we understand it or are able to interpret it. During a recent Revenue Management development session I asked a few questions about market share indexes. Questions like: “What must happen within your competitive set when your indexes go up?” “What is the ideal balance for your indexes in your competitive market?” “What are the basic formulas used to determine Occupancy, Rate and RevPAR Indexes?” These are relatively simple questions, but it is surprising how many hoteliers hesitate when asked.

Let’s start with the index formulas to make sure we’re on the right track:

| Occupancy Index (market share) | Rate Index (rate penetration) | RevPAR Index (yield index) |
|---|--|---|
| <u>Actual Share</u> Fair Share X 100 | <u>Your ADR</u> Comp Set ADR X 100 | <u>Your RevPAR</u> Comp Set RP X 100 |

In the case of the Rate and RevPAR formulas, I usually get the right answer. However, for the Occupancy formula the answer is often: the Occupancy Index is calculated by dividing the subject hotel’s occupancy by the occupancy of the competitive set. This gives the appearance of an occupancy index, but does not take into account any changes in the fair share ratio. Fair share will change if there is an increase (or

decrease) in supply. An easy way to depict fair share is to think of it as “your piece of the pie”. If there are 1200 rooms in the competitive set and your hotel is 200 rooms, fair share is 16.66%. If you achieve 16.66% of the room nights generated within your competitive set in a given month, your actual share equals your fair share, thus a 100% Occupancy Index.

So what happens when your indexes exceed 100%? If yours are up, must other hotels be down? The answer to this question is of course “yes”. When your piece of the pie changes (in this case it has gotten larger), one or more hotels in your competitive set has lost share, and their piece of the pie has gotten smaller. Surprisingly, this “teeter-totter” affect is a phenomena not always understood by those interpreting market share reports. It would be more easily spotted if you could actually see indexes by individual hotel. For example, it’s common in Canada for hotels to share historical performance data. Many Canadian hotels track detailed market share information where they can actually determine when their indexes go up or down which competitors may have benefited or lost share as a result of their performance.

Lastly, what is the ideal balance for your indexes and what does balance indicate? Index balance refers to the relative difference between your Occupancy and Rate Indexes. For example if your Occupancy Index is 106.6 and your Rate Index is 80.3 what does this tell you - aside from the obvious which is that you’re doing a better job of capturing room nights (volume) than room rate (ADR). Essentially, index balance means that you “played the market” conditions perfectly, capturing volume when necessary and rate when possible. By doing this, your Occupancy and Rate indexes were mutually rewarded. What is an ideal balance? In most cases, Occupancy and Rate indexes should remain within 10 points of one another if the hotel is optimally managing the demand in the marketplace. An example of when this would not hold true would be a very dominant player, who substantially leads the market in average rate. Their rate penetration remains high, well ahead of room night share, and balancing does not make sense.

The lesson is not to assume that people understand the market intelligence they receive. There is more confusion out there than you might think. Take the time to go back to basics when it comes to interpreting market intelligence. It will be time well spent.

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