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Market Share Forecasting –
A Valuable Exercise or Not?

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Regardless of our 24/7 mentality…there are only so many productive hours in a day. So if I'm going to advocate yet another Revenue Management process, I'd better have a good reason. And I believe I do in the case of market share forecasting.

First of all, what is it? Simply put, it's a process that utilizes historical and future demand data to forecast RevPAR performance and then project that performance into the market place relative to the competitive set. Think of it as having a STAR Report in advance.

The primary purpose of predicting market share in advance is to be able to proactively manipulate business mix in order to improve market penetration. It affords the opportunity to address positioning strategies before it's too late. It also provides a chance to address index imbalances. If the occupancy index looks to be over performing, the hotel has the confidence to ease back on volume and drive rates. If the rate index is soaring, then additional lower-rated business can be strategically sought.

Essentially there are 3 steps in the market share forecasting process: 1) internal analysis, 2) external analysis, & 3) forecasting market demand.

Step 1: Start by having a look at monthly, quarterly and annual YTD performance to budget. Looking at this data helps to determine where internal yield strategies against market demand may be off. As well, look at performance against the transient baseline. There may be a need to adjust the baseline to reflect new information. Finally, look at forecast accuracy trends – are there inaccuracies by day of the week? By segment?

Step 2: Examine the hotel's performance relative to the competitive set. Look at past indexes and index balance (i.e. occupancy vs. rate indexes). For example, have tactics been too aggressive given the demand in the market place? Is the hotel not reacting quickly enough to maximize one of the individual indexes? Have a look at the DayStar to drill down into some of the disaggregated segment information.

Step 3: Based on your internal & external research and using reasonable assumptions, estimate the market going forward. Look at the occupancy and ADR variances per month between your hotel and the comp set; then formulate a hypothesis (an educated guess) about how the market will perform. Finally, compare your forecasted occupancy, rate and RevPAR to the comp set forecast and see where your indexes fall. If the result is undesirable you have time to do something about it. Review the strategies in place for the month in question and ask what changes can be made and successfully implemented that will impact RevPAR results.

Market share forecasting can be controversial. Sceptics argue that accurately forecasting the market is too difficult and arbitrary. My answer is this: forecasting the market is part of every annual business plan process. Market share forecasting is the very same process, only it's done monthly (or quarterly), and adds the extra step of "doing the math"; i.e. comparing your forecasted numbers to the comp set forecast. The key is to make reasonable, logical assumptions based on your empirical research and see where this leads.

You might begin by simply projecting your annual budgeted occupancy, rate and RevPAR into the market. Start by forecasting the year-end performance of the competitive set by using logical market metrics. To make it easier, assume the market remains flat and that any increase in rooms revenue achieved by your hotel represents stolen share. Based on this scenario, how do your market indexes look? How balanced are they? Remember, be guided by the characteristics of the demand in the market place, not by internal budget or forecast goals.

Market share forecasting is certainly not an exact science. But don't be afraid to experiment. The objective is to examine market demand in search of new ways to increase market share by manipulating mix. Yes, market share forecasting (like demand forecasting) is both art and science. But I've seen some pretty dramatic changes in strategy as a result – so why not try it?

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