

Hotel/Motel Market Analysis

Developing a business plan for an existing business or conducting a feasibility study for a new venture requires a thorough analysis of market conditions. Market conditions in your area have a significant impact on the profitability of your hotel or motel. The strength of the local lodging market affects how many rooms you can sell and the rates that you can charge. This guidebook will help you analyze your market so that you can gauge the potential of your operation and make more informed operating and investment decisions.

On the pages that follow are a series of checklists to help you collect and analyze information as part of a hotel/motel market analysis. The checklists, tailored to the hotel/motel industry, will serve as a learning tool to help you understand the many market factors that impact your profitability. Information collected in your analysis is then used to predict future occupancy levels and rates.

Types of Questions Answered

Your market analysis will help you answer questions such as:

- What trends are occurring in the lodging industry?
- Are local economic and visitation trends favorable?
- Who are my competitors and how successful are they?
- What are the potential lodging market segments in the area?
- What occupancy and average room rate could I achieve?

Applications

The guidebook is designed to provide you with an industry-specific market analysis format that can be used in a feasibility study, business plan or marketing plan. It can be used to analyze the market potential of an existing property, a property expansion or a new development.

Existing operators can use a market analysis to identify opportunities to improve sales. The analysis can provide valuable information on market conditions to help in forecasting and budgeting. It also provides a foundation for an effective marketing plan.

Prospective operators can use a market analysis to project sales volume for a new lodging venture. The analysis can provide essential information required in a business plan or feasibility study. The risks of a business investment are lessened by careful analysis of the market.

Using your market analysis findings, you can estimate the financial potential of your venture by creating financial projections. Guidebooks and software for developing hotel and motel financial projections are available through University of Wisconsin-Extension Center for Community Economic Development.

Conducting Your Analysis

The sections that follow include data collection checklists and worksheets. While the section on projecting occupancy and average room rate should be the final step, the other sections can be

Market Analysis Components

- Industry Trends
- Location and Facility
- Area Characteristics
- Competition
- Knowing Your Customer
- Projecting Sales

completed in any order. Remember that your efforts in studying the market will provide you with information to make better, more informed decisions.

I. Industry Trends

Studying national and regional industry trends will help you identify opportunities and threats that may affect your profitability. Relevant trends might include the growth in demand for overnight accommodations, changes in travelers' lodging needs, and new, innovative properties that are opening around the country. Sources of trend information include:

- American Hotel and Motel Association;
- State and local hotel/motel associations;
- Hospitality industry databases (available at many colleges and universities that offer a hospitality program);
- Industry publications (such as Cornell Hotel and Restaurant Quarterly, Hotel & Motel Management and Lodging); and
- Other industry related research provided by accounting and consulting firms specializing in the lodging industry.

The industry trends checklist provides a sample of topics you might want to study as part of your market analysis.

Growth in Industry- Occupancy and Room Rates

- ÿ Limited service vs. full service
- ÿ Chain vs. independent
- ÿ Industry sales outlook

Market Demand

- ÿ Business travel preferences and trends
- ÿ Leisure travel preferences and trends
- ÿ Group travel preferences and trends
- ÿ Factors that motivate one to select hotel

Market Supply

- ÿ Aging of existing lodging facilities
- ÿ New types of properties (all-suite, extended stay, "hard budget", etc.)
- ÿ Growth in number of properties
- ÿ Financing for new properties
- ÿ Alternative lodging accommodations (i.e. bed & breakfast, other)

Success and Failure Factors

- ÿ Service
- ÿ Facilities
- ÿ Amenities
- ÿ Pricing practices
- ÿ Reservation systems
- ÿ Property size
- ÿ Debt-to-sales and other statistics

Legislative and Regulatory Issues

- ÿ Health Insurance
- ÿ Wage and hour requirements
- ÿ Americans with Disabilities Act (ADA)

II. Location

Location is a critical consideration because it affects your ability to draw customers. It is important that your location be visible, accessible, convenient and attractive to your market. Surrounding land uses are important for all types of lodging operations. Aesthetics of the area, noise, safety and other factors should be considered. How you evaluate your location will depend on the type of property you are operating or planning and the customers you hope you serve.

Commercial Locations

By location along major highways or in business or industrial districts, hotels and motels benefit from high visibility and proximity to generators of room night demand. Local colleges, hospitals, attractions, services and entertainment are examples of "room night" demand generators. Be sure to consider future growth patterns when analyzing your site.

Resort Locations

Hotels and motels in resort areas generate most of their business from leisure travelers who see the lodging facility and surrounds area as their "destination." Access and visibility, while important, are secondary to the quality of the facility, services, amenities, and nearby attractions.

Different types of lodging operations will have different location requirements. Analyze your location using the factors listed on the following location checklist. Be sure to consider other location criteria to your particular hotel or motel. Use the following checklist to complete this part of your market analysis.

Description of immediate area

- ÿ Commercial profile
- ÿ Adjacent land uses
- ÿ Proposed developments
- ÿ Safety
- ÿ Availability of nearby services (food, fuel, shopping...)
- ÿ Map of area (identify sources of demand, competition and other relevant landmarks)

Proximity to demand generators

- ÿ Business demand generators (industry, business, government, ...)
- ÿ Colleges, hospitals and other institutions
- ÿ Convention centers
- ÿ Tourist attractions (museums, historical sites, recreation, ...)

Traffic Volume

- ÿ Highway/Street traffic counts
- ÿ Traffic patterns

Accessibility

- ÿ Proximity to major streets and highways
- ÿ Ease of entrance and exit

Other Issues

- ÿ Is the site large enough?
- ÿ Social, political and environmental concerns
- ÿ Area growth patterns

III. Local Market Area

In addition to having a good site, a lodging facility must be located in a market area that attracts overnight visitors. Indicators of market area vitality are described below.

Business Climate

Hotels and motels that primarily serve business travelers usually rely on the strength of the local business community. The size, stability and diversity of major local employers are important factors that should be researched. Plans for future business development should also be studied. Local planning officials and chambers of commerce are good sources for this information. Ask for information to help you understand trends over the past ten years and the future outlook.

Tourism Activity

Hotels and motels in resort areas typically rely on local attractions to bring in customers. Attractions can include both natural and man-made places of interest. Attraction operators may be able to provide you with estimates of attendance and data describing seasonality trends and place of customer origin.

Transportation and Other Characteristics

An analysis of the transportation network serving the market area is also important. Existing highways and proposed highway improvements should be identified. Distances to feeder markets (where the guests originate) may be particularly important for resort hotels. Local economic and demographic trends should also be considered.

The following market area checklist includes information relevant to your operation. Use it to complete this part of your market analysis.

Business and Economic Characteristics

- Room tax collections*
- Eating and drinking place sales
- Retail sales
- Employment (levels, types, major employers)
- Office/Industrial space occupied
- Business and plant closings
- New businesses planned

Tourism and Recreation Characteristics

- Park visitation
- Museum visitation
- Casino visitation
- Festivals and events visitation
- Attractions visitation
- Snowmobile trail usage
- Boating activity
- Hunting and fishing activity
- New tourism attractions planned

Transportation Factors

- Distance from major cities
- Traffic volume
- Airport volume
- Ferry volume

- ÿ Passenger rail volume

Other Market Characteristics

- ÿ Population
- ÿ Household income distribution
- ÿ Local wage rates
- ÿ Availability of labor
- ÿ Types of labor available

*Municipal room tax collections can provide you with a measure of the growth in lodging revenues during the past three to five years. This is typically a reliable source of data to supplement your analysis of area competition (described in the next section).

IV. Competition

Probably the most important part of a lodging market analysis is the study of current and proposed competition. It is sometimes helpful to conduct interviews with the operators of other hotels nearby to learn about their operation and performance.

An important part of your competition analysis is estimating the monthly and annual operation performance of each competitive property. Performance can be measured in terms of occupancy percent and average daily room rate.

$$\text{Occupancy Percent} = \text{Number of Rooms Sold} / \text{Number of Rooms Available}$$

$$\text{Average daily room rate} = \text{Total Room Revenue} / \text{Number of Rooms Sold}$$

In addition to occupancy and average room rates, each competitive operation should be carefully studied to determine its strengths, weaknesses and competitive position in the market area.

Information on your competition can be obtained from interviews with management and:

- American Automobile Association Tour Books
- Mobil Travel Guides
- State association and local lodging directories

You should also investigate any plans for other new lodging operations in the area. Too many new rooms can lead to depressed occupancy levels and “price wars.” Local planners and the development departments of hotel companies are usually aware of developments proposed for your community. Use the following checklist to complete this part of your market analysis.

Location

- ÿ Proximity to sources of demand
- ÿ Accessibility
- ÿ Visibility
- ÿ Surrounding neighborhood

Facility

- ÿ Age
- ÿ Exterior appearance and condition
- ÿ Interior appearance and condition
- ÿ Cleanliness
- ÿ Signage

- ÿ Types of rooms (suites, standard room,...)
- ÿ Food and beverage outlets
- ÿ Function rooms
- ÿ Recreation (pool, fitness center, ...)

Service

- ÿ Quality of service
- ÿ Extra services offered

Information from Hotel/Motel Managers

- ÿ Weekday vs. weekend demand patterns
- ÿ Historical occupancy growth or decline
- ÿ Monthly occupancy levels
- ÿ Number of 100% occupancy days per month
- ÿ Average room rate per month (after any discounts)
- ÿ Major market segments served per month
- ÿ Major sources of demand

General Information

- ÿ Number of rooms
- ÿ Months open
- ÿ Published rates
- ÿ Franchise affiliation
- ÿ Ratings in travel guides

V. Lodging Demand

Once you have analyzed your competition and their customers, you should carefully study what market segments of overnight guests visit your community. These market segments typically fall into four categories: business, leisure, group, and other.

Business Travelers:

Business travelers represent a large portion of lodging demand in many market areas. They include people traveling on business representing commercial, industrial and governmental organizations. Peak business demand is usually experienced Monday through Thursday nights.

It is important to understand why business travelers are visiting the market area and how many room nights they generate. Reasons for visiting a particular area might include conducting business with a local company (recruiting, training, management meetings, ...); calling on multiple businesses (by suppliers, vendors, sales representatives, ...); and stopping over between destinations.

Interviews with local business representatives can be the most effective way to estimate how many room nights they might generate. Questions to ask include: type of visitors, frequency of visits, length of stay, where most visitors tend to stay and what rate range is acceptable.

Leisure Travelers:

Leisure travelers may visit an area for a vacation, to attend sporting or social events, to shop, or to visit friends and relatives. They might be staying over simply because they are traveling to other destinations. Leisure travelers may be individuals, couples, families, or small groups. Travelers visiting hospitals and universities are typically included in this market segment.

Leisure room demand is often seasonal. In larger, more urban market areas, leisure room demand may be limited to weekends, summer months and holiday periods. To measure the significance of leisure demand in your market area, interview the local visitor bureau, Chamber of Commerce and local event and attraction operators. Also, study variations in room rates by day of week and time of year. Higher rates usually indicate periods of higher occupancy. Finally, inspect local hotels and motels to determine if they have been designed to serve leisure travelers. Recreational facilities such as pools, fitness centers, tennis courts, snowmobile trails and other features may indicate the importance of leisure travelers to a particular property.

Group Meeting Travelers:

The group market consists of both leisure and business travelers. Leisure groups include bus tours, school activities, athletic events, etc. Tour groups are often brought to an area for sightseeing and attending special events. Local attractions that appeal to leisure tour groups may have records of the numbers and names of tour operators who have visited their attractions. The National Tour Association and American Bus Association, among others, can provide information on tour activity.

Business group meetings are typically associated with conferences, board meetings, training programs, seminars, trade shows, and other gatherings. Often the sponsoring organization will be from the local area. Out-of-town organizations may use local meeting facilities because they often rotate the sites of their regional meetings. Information on the group meeting market can be obtained through state chapters of Meeting Planners International and the American Society of Association Executives. Your community's convention and visitor's bureau or chamber of commerce can usually provide a good estimate of local group meeting activity.

Other Travelers:

Various lodging customers cannot be classified under the categories of business, leisure, or group. These travelers may include construction workers, truckers, utility crews and others. Activity at local truck stops, distribution centers, long term construction projects and other sources of demand could help you estimate the significance of this market segment.

Analyzing Visitor's Place of Origin

Analyzing visitor origin can be a complicated process. As these visitors may be traveling great distances, it can be more difficult to acquire customer information than with a traditional analysis of local residents. Nonetheless, understanding these customers requires obtaining information about their places of origin, as well as data about their demographics and lifestyles.

A technology called geographic information systems (GIS) can be used to solve these problems. Combining GIS with your customer address lists or chamber of commerce inquiry records, gives you the ability to profile tourism customers both geographically and demographically. Furthermore, GIS technology can use this information to search (prospect) for new potential customers in other communities that match your geographic or demographic criteria.

For more information, see: <http://www.uwex.edu/ces/cced/flypp.doc>

VI. Project Refinement

If you are a prospective hotel or motel operator, it is essential to understand the lodging needs of people visiting your community. Using data already gathered, this section will help you refine your proposed hotel or motel so that it can effectively serve your market area.

One of the most important considerations in refining your hotel or motel project is estimating the total number of guest rooms (hotel/motel size). Optimum room size is dependent on a number of variables including:

- Market area room demand as measured by occupancy rates
- Financial resources available to you
- Minimum room size allowed by a franchiser (if applicable).

Keeping your project within the optimum size range will help you achieve financial success while reducing the risk of over-building within a market area. Use the items in the product refinement worksheet below to identify key characteristics of your planned operation.

Affiliation

_____ Independent
_____ Chain. If yes, which one?

Product Category

_____ Limited Service
_____ Full Service

Room Type and Number

- ÿ Standard Rooms _____
- ÿ Suites _____
- ÿ Specialty Rooms _____

Amenities and Facilities

- ÿ Restaurant and Lounge _____
- ÿ Function Facilities _____
- ÿ Recreation (pool, fitness center, ...) _____
- ÿ Other _____

Market Area to be served:

- ÿ Primary _____
- ÿ Secondary _____

Market segments to be served and Mix

- ÿ Business _____
 - ÿ Leisure _____
 - ÿ Group _____
 - ÿ Other _____
- Total= 100%

Expected Price Range

- ÿ Peak Periods _____
- ÿ Slow Periods _____

VII. Projecting Your Sales Potential

At this point in your market analysis, you have completed your data collection. You have analyzed industry trends, your location and facility characteristics, market area visitation activity, local competition and potential market segments. You are now ready to estimate your sales potential based on these factors.

Room sales in a hotel or motel are a function of your occupancy percent and your average room rate as defined earlier. A key indicator of future performance is past occupancy and room rate. Existing hotel and motel operators can rely on their historical records of this information. Prospective operators must look to comparable hotels and motels for data on their past performance.

The steps that follow will help you estimate your occupancy, room rate and sales potential.

1. Project Market Area Annual Occupancy

Project the occupancy for your entire market area for the coming year. Use the worksheet on the accompanying page as follows:

- A. Under Area Hotels/Motels, list all of the competitive properties in your market area. If you are an existing operator, be sure to include your own property.
- B. For each property, record the Days Open, Rooms in the property, and the estimated Occupancy Percent.
- C. For each property, calculate and record the number of Rooms Available per year by multiplying Days Open by Rooms. Sum the Rooms Available column.
- D. For each property, calculate and record the number of Rooms Sold per year by multiplying Rooms Available by Occupancy Percent. Sum the Rooms Sold column.
- E. Calculate the current market occupancy by dividing the sum of Rooms Sold by Rooms Available.
- F. Looking ahead to next year, record any additional rooms (new room supply) that will be added to the market area. If you are a prospective operator, include your planned facility.
- G. For next year, record additional growth in room night demand (new room demand) that might occur as a result of improving economic conditions, tourism visitation, or simply as a result of having new lodging rooms added to the market area.
- H. Record the total Rooms Available and Rooms Sold for next year (current year totals plus additions from steps F and G). Calculate next years market occupancy by dividing Rooms Sold by Rooms Available.

Market Area Occupancy Projection					
Current Year : _____			<u>Lodging Supply:</u>		<u>Lodging Demand:</u>
Area Hotel/Motels	Days Open	X Rooms	Rooms Available	Occupancy %	Rooms Sold
Total Market Area					
Next Year : _____					
New Room Supply					
New Room Demand					
Total Market Area					
Example:					
Current Year: 2003			<u>Lodging Supply:</u>		<u>Lodging Demand:</u>
Area Hotel/Motels	Days Open	X Rooms	Rooms Available	Occupancy %	Rooms Sold
SUBJECT HOTEL	365	80	29,200	68%	19,856
Downtown Inn	365	75	27,375	69%	18,889
Roadside Inn	365	45	16,425	70%	11,498
Traveler's Lodge	365	40	14,600	62%	9,052
Highway Motel	365	30	10,950	66%	7,227
Rustic Reosrt	365	20	7,300	58%	4,234
Total Market Area			105,850	67%	70,755
Next Year : 2004					
New Room Supply	365	60	21,900	-	-
New Room Demand	-	-	-	-	3650
Total Market Area			127,750	58%	74,405

2. Project Market Area Annual Occupancy

Based on your hotel or motel's relative strengths and weaknesses, determine if you will achieve an occupancy higher or lower than the market occupancy projected in step one. Compare your operation with the competitive properties in your market area using the criteria below. Be sure to keep in mind the types of travelers that make up local lodging demand. Record your occupancy projection in the space provided.

Competitive Strength ← -----→ **Competitive Weakness**

Immediate Area	*	*	*	*	*
Proximity To Demand	*	*	*	*	*
Traffic Volume	*	*	*	*	*
Accessibility	*	*	*	*	*
Visibility	*	*	*	*	*
Building Appearance	*	*	*	*	*
Guest Rooms	*	*	*	*	*
Facilities	*	*	*	*	*
Guest Service	*	*	*	*	*
Reputation and Ratings	*	*	*	*	*
Franchise Affiliation	*	*	*	*	*
Management	*	*	*	*	*
Maintenance/Housekeeping	*	*	*	*	*
_____	*	*	*	*	*
_____	*	*	*	*	*
_____	*	*	*	*	*

3. Check the Reasonableness of Your Occupancy Projection

Once you have projected your annual occupancy, determine if it is reasonable given the historic seasonal demand patterns of your property and/or market area. First identify the seasonal trends for each market segment. Based on these demand patterns, estimate monthly occupancy levels. The average occupancy level for the 12 months should be similar to your annual occupancy projection in step 2. The worksheet below will help in this analysis.

Monthly Occupancy Projection (Reasonability Check)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Indicate Peak Season (P), Middle-Season (M) or Off-Season (O)												
Business													
Leisure													
Group													
Occupancy Projection													
Days Open													
X Rooms													
Rooms Available =													
X Occupancy %													
Rooms Sold =													
Example:													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Indicate Peak Season (P), Middle-Season (M) or Off-Season (O)												
Business	M	M	M	P	P	P	O	O	P	P	M	O	
Leisure	M	M	O	O	M	P	P	P	M	M	O	O	
Group	O	O	M	M	P	P	O	O	P	P	M	O	
Occupancy Projection													
Days Open	31	28	31	30	31	30	31	31	30	31	30	31	
X Rooms	100	100	100	100	100	100	100	100	100	100	100	100	
Rooms Available =	3,100	2,800	3,100	3,000	3,100	3,000	3,100	3,100	3,000	3,100	3,000	3,100	36,500
X Occupancy %	35%	35%	25%	50%	70%	75%	80%	80%	65%	55%	40%	35%	54%
Rooms Sold =	1085	980	775	1500	2170	2250	2480	2480	1950	1705	1200	1085	19,660

Also, compare your annual occupancy projections with area, state and national averages to make sure your projections are realistic.

4. Project Your Average Room Rate

Effective pricing is critical in the lodging business as increases or decreases in rates have a major impact on the "bottom-line." Setting prices to maximize profit is important process that requires consideration of the rates charged by competitors and the price sensitivity of travelers to the area.

The following four steps will help ensure that you are competitively prices relative to your competition.

- Analyze your expected market segments. What factors do they consider when choosing a lodging facility (location, service, condition, affiliation...).
- Compare your expected quality level and appeal with that of your competitors. Make this comparison using the factors identified in step 2.
- Analyze the room rates charged by your competitors. Consider single and double rates, discounting, and variations in rates by season. Estimate their average annual room rate.
- Project your average annual room rate by considering the rates and quality levels of your competitors. Your rates must be acceptable to the market segments you are targeting.

5. Project Your Sales

After you have developed projections of occupancy and average room rate, you will be able to calculate your projected room revenue as follows:

Projected Annual Occupancy	_____%
x Number of Rooms in Your Hotel or Motel	_____
x Days Open	_____
x Average Daily Rate	_____
= Projected Annual Revenue	_____

The Next Step: Developing Financial Projections

Once you complete your market analysis, you will be able to develop realistic financial projections for your lodging facility. If you are an existing operator, these projections can serve as a financial plan or budget. If you are a prospective operator, they will help you determine the financial feasibility of your venture. To help you, spreadsheet software templates are available through the University of Wisconsin-Extension Center for Community Development.

This guidebook was updated in 2003 by Bill Ryan and Michael Chrisler of the University of Wisconsin-Extension Center for Community Economic Development and the Wisconsin Small Business Development Center. Assistance provided by Hannah Kirking. This publication was originally written in 1994 with additional assistance from Al Anderson (UW-Extension), Michael P. Lindner (The Lindner Company, Hartland, WI) and William R. Way (Bill Way & Associates, Inc., Hudson, WI).