Revenue and Profit: Benchmarking Current and Future Trends in Hotel Operating Performance

Tanya Venegas, MBA, MHM
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In this session we will:

- take a deep dive into benchmarking to provide a full understanding of the concept including its history and evolution into the practices we utilize today.
- understand the importance of standardizing data as a crucial element of the benchmarking process.
- highlight metrics utilized in operational benchmarking along with the key steps in the benchmarking process.
- review operational trends for the lodging industry over the past year.
What is benchmarking?

“The formal definition of benchmarking is the continuous process of measuring our products, services and practices against those of our toughest competitors or companies renowned as leaders.”

- Robert C. Camp, “A Bible for Benchmarking, By Xerox”
Benchmarking Types by Comparison

**Internal Benchmarking**
- Measures and compares different areas of the same organization

**External Benchmarking**
- Measures and compares standards outside the organization

**Competitive**
- Comparisons with direct competitors

**Industry**
- Includes key players such as suppliers and distributors

**Generic**
- General comparisons with unrelated industries

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Operational Benchmarking

- Ensure newly implemented best practices and processes are yielding the expected results. Continuously monitor for new opportunities.
- Ensure newly acquired best practices are implemented and shared across the rest of your operations.
- Include team members across the whole operation to identify and develop best practices to support the drive for profit enhancement.
- Compare your data vs your CompSet to identify the biggest opportunities for driving revenue and/or reducing costs.
- Define the medium and long-term strategic goals that will deliver the greatest profit enhancements to your operation.
- Agree on a set of KPIs that will be used to track trends vs your CompSet.
Creating CompSets

Market Sets

Looking beyond Market Sets
- Facility
- KPI
- Sets for Rooms, F&B, C&B, etc.

Who should have access to sets?
- Corporate Level
- Regional Level
- Property Level

STANDARDIZING DATA
Comparability is essential to the process

- Standard Accounting Procedures
- Uniform System of Accounts for the Lodging Industry (USALI)
  - 11 Editions

In 2018, HFTP (Hospitality Financial and Technology Professionals) purchased the copyright to the USALI from the Hotel Association of New York City.

Operated Departments

- Rooms
- Food & Beverage
- Other Operated Departments
  - Health Club/Spa
  - Golf
  - Parking
  - Minor Operated Departments
Undistributed Departments

- Administrative & General
- Sales & Marketing
- Information & Telecommunications
- Property Operation & Maintenance
- Utilities

KEY METRICS
BY DEPARTMENT

HOTSTATS
### Examples of Calculations by Department:

<table>
<thead>
<tr>
<th>Rooms Department</th>
<th>F&amp;B Department</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Occupancy</strong></td>
<td><strong>Revenue Mix</strong></td>
</tr>
<tr>
<td>Occ% = Rooms Sold / Rooms Available</td>
<td>Rev Mix = Total Venue Revenue / Total F&amp;B Revenue</td>
</tr>
<tr>
<td><strong>Average Room Rate</strong></td>
<td><strong>Average Check</strong></td>
</tr>
<tr>
<td>ARR = Total Rooms Revenue / Rooms Occupied</td>
<td>Avg. Check = Total Food Revenue / Number of Customers</td>
</tr>
<tr>
<td><strong>Revenue Per Available Room</strong></td>
<td><strong>F&amp;B Revenue Per Available Room</strong></td>
</tr>
<tr>
<td>RevPAR = Total Rooms Revenue / Rooms Available</td>
<td>F&amp;B RevPAR = Total F&amp;B Revenue / Rooms Available</td>
</tr>
<tr>
<td><strong>Total Revenue Per Available Room</strong></td>
<td><strong>Cost Percentage</strong></td>
</tr>
<tr>
<td>TRevPAR = Total Revenue / Rooms Available</td>
<td>Food Cost% = Food Cost / Food Revenue</td>
</tr>
<tr>
<td><strong>Rooms Profit</strong></td>
<td><strong>F&amp;B Profit</strong></td>
</tr>
<tr>
<td>Rooms Profit % = Rooms Profit / Rooms Revenue</td>
<td>F&amp;B Profit % = F&amp;B Profit / F&amp;B Revenue</td>
</tr>
</tbody>
</table>

Note that these measures are all ratios.

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**Why are ratios important?**

Ratios are independent of property or market specific characteristics (size, class, sales volume, etc).

Because of this, ratio analysis allows us to compare the performance of different properties and identify industry best practices.
WHY LOOK BEYOND REVPAR?

Occupancy comes at a cost → OTAs, labor costs, utilities → You can’t take RevPAR to the bank!
There is more to Revenue → F&B Department, Spa, etc → TrevPAR is more informative

ABSOLUTE AND RELATIVE

Absolute Analysis → Actual performance is compared to the budget or past performance
Relative Analysis → Indices that measure performance relative to the CompSet

Index = \( \frac{\text{Your Property's KPI}}{\text{CompSet KPI}} \times 100 \)

Benchmarking to Best Effect

- Familiarize yourself with current performance standards
- Numbers need a context:
  - Seasonality and Previous Years
- Geographic variations
- Understand market dynamics:
  - Demand drivers
  - Supply changes
- Analyze performance on a POR, PAR and percentage basis
Opportunities for Detailed analysis

- Revenue
- Labor
- Cost of Sales
- Expenses
Major Cities: F&B Revenue vs F&B Profit

Major Cities: Total Undistributed Expenses
THANK YOU