

2013 Benchmarking Guide

for the

Fáilte Ireland

**Business Diagnostic Indicator for Hotels
2013**



INTRODUCTION TO THE 2013 BENCHMARKING GUIDE

This guide is a supporting document for the Business Diagnostic Indicator for Hotels. It has been designed to be used by hoteliers who have completed the Business Diagnostic for their property for the 2012 financial year.

Section 2 of the Business Diagnostic provides a snapshot of your property's performance across important business dimensions. The information you provide is primarily based on percentages and for some measures you can compare your property to industry benchmark.

This guide follows each of these industry benchmarks and provides explanations to assist in interpreting the results. The guidance notes identify practical actions that can be taken if your property is performing above or below industry.

Utilising this document in conjunction with the Business Diagnostic Indicator will enable you to identify areas for improvement and introduce corrective action.

Please note that some performance measures included in the **Below Industry Averages** section apply to your results being higher than the industry average (e.g. Room Cost %, Payroll %, Utility Costs %, Administrative and General, Marketing and Franchise Fees, Property Ops and Maintenance). This also applies for these results in the **Above Industry Averages** section.

This guide cannot be regarded as a comprehensive guide to providing solutions or recommendations for your business and it may be necessary to extend beyond the sample of guidance notes provided.

Business Performance Measure	Guidance
	Below Industry Averages
Accommodation	
Occupancy Rate %	Variances in occupancy may require a review of the competitive market (overpricing)
	Consider if pricing strategy and marketing activities are appropriate for target market
	Review impact of seasonality on occupancy levels
	Review sales and marketing activities to drive sales
	Consider new market segments
Average Room Rate	Review rate strategy, rate tiers and rate fences
	Review package allocations (e.g. breakfast, dinner, spa treatment) and ensure realistic
	Practice yield management to maximise rate and occupancy (driving revPAR)
	Conduct regular review of local competitors to analyse historic and future demand levels and implement appropriate yield management strategies
Room Cost %	Investigate inhouse vs. outsourcing laundry function
	Ensure there is a reject system for damaged linen
	Complete an inventory of each guest item in a bedroom, cost and review if savings can be made
	Control toiletries / amenities - staff to stock according to requirements
	Train staff to ensure environmental policies are adhered to, e.g. If guests preference is to reuse towels then those towels are not replaced
Expenses Data	
Payroll %	Implement cross training and multi-skilling of all departments
	Roster each department according to business demands
	Review opening times of departments in line with demand
	Consider closures over low-season
	Set targets for Managers and challenge if and why targets are not met
	Ensure payroll is cross charged if staff rotate jobs
Utility Costs %	Conduct energy audit to help investigate, understand and reduce charges
	Install timers on equipment
	Include turn-off of appliances/lights on the night-porters checklist
	Light sensors
	Review of supplier pricing
	Investigate bulk buying of utilities
	Review fixed pricing for a period
	Review alternative energy sources
	Train staff
Administrative and General (excl payroll costs)	Check telephone bills regularly and limit dial out access on in-house phones, particularly for premium numbers.
	Ensure receiving foreign exchange rebates on credit card transactions
	Re-tender with suppliers
Marketing and Franchise Fees	Review printing supplier and negotiate pricing
	Consider electronic communication to save costs on printing and postage
	Consider contra deals in exchange for advertising
	Complete a cost benefit analysis of all activities / initiatives to ensure adequate payback
	Consider bulk buying
	Consider developing partnerships with local providers to share costs on joint sales activities

Business Performance Measure	Guidance
	Below Industry Averages
Property Ops and Maintenance	Tender for all maintenance contracts
	Ensure staff are aware of service contracts and the terms and conditions
	Ensure authorisation is required for call-outs
	Consider if there are any exceptional items distorting this figure. Property Ops and maintenance includes day to day maintenance and not capital expenditure projects
Departmental Profit	
Rooms %	Review cost structure
	Train all staff on use of chemicals
	Investigate inhouse vs. outsourcing laundry options
	Ensure there is a reject system for damaged linen
	Consider what is included in each room and if it is necessary e.g. water, newspaper, slippers, number of towels provided etc
	Control guest amenities - staff to stock amenities according to needs
	Review source of business being generated through third party intermediaries and the associated commission
Food and Beverage %	Ensure costs are recorded exclusive of VAT
	Review of waste, stock control, delivery and requisition procedures
	Cost each cover and ensure portion size is adhered to
	Comparison of at least 3 supplier costs for best selling food and beverage items
	Analysis of other expenses such as linen, uniforms, cleaning supplies, napkins, coasters
	Ensure appropriate pricing strategy in place to achieve gross margins
	Review allocations for food and beverage from inhouse packages
	Implement monthly stocktakes
Other Departmental Profit %	Introduce a Purchase Order system for any items not ordered on a daily basis
	Ensure costs are allocated to the correct department
Profit Before Tax	
Profit Before Tax / Net Profit %	Review departmental costs and payroll to ensure in line with industry average
	Tender for utility costs to ensure best price
	Ensure hotel is included in revaluation of commercial rates
Gross Margin	
Food %	Ensure costs are recorded exclusive of VAT
Beverage %	Review of waste, stock control, delivery and requisition procedures
	Cost each dish and ensure portion size is adhered to
	Comparison of at least 3 supplier costs for best selling food and beverage items
	Analysis of other expenses such as linen, uniforms, cleaning supplies, napkins, coasters
	Ensure appropriate pricing strategy in place to achieve gross margins
	Review allocations for food and beverage inhouse packages
	Implement monthly stocktakes
Current Ratio	
	Review cash handling procedures to ensure no cash leakage is occurring
	Discuss cash restrictions with bank and arrange working capital facility over low season
	Arrange seasonal repayments
	Ensure efficient procedure in place to collect debtors
	Review bad debts in creditors listing

Business Performance Measure	Guidance
	Above Industry Averages
Accommodation	
Occupancy Rate %	Review competitor pricing to ensure occupancy is not based on lower than market pricing (ie.e sacrificing average room rate to gain occupancy)
	Ensure effective yield management strategy is implemented to drive rate during high occupancy periods
	Analyse revPAR - do not focus on occupancy as a lone benchmark
Average Room Rate	Are you out-pricing the market
	Analyse revPAR - do not focus on ADR as a lone benchmark
	Conduct primary competitor analysis to ascertain if primary competitors are achieving similar rates
Room Cost %	An increase in average room rate will assist in improving profits without any great impact on costs
	Ensure payroll for relevant departments are included (accommodation, reception, reservations, porters)
	Review if there has been a change in room supplies cost
Expenses Data	
Payroll %	Is the level of payroll sustainable or impacting on service levels
	Are hours being recorded correctly
	Ensure holiday pay is included as a cost
	Is there a build up of lieu hours that will be a future cost
	Check staff hours are cross-charged correctly for work in other departments
Utility Costs %	Ensure all invoices are included for the relevant period
	Reduced utilities may be a result of a reduction in sales / volume
	Stay alert to possible increases in costs from utility providers
Administrative and General (excl payroll costs)	Ensure all charges are included for the relevant period
	Check all costs are allocated correctly
Marketing and Franchise Fees	Conduct a review of marketing strategy to ensure there is sufficient activities to promote hotel and target business
	Ensure all invoices are included for the relevant period
	Is there a high number of contra deals in place reducing the marketing costs
Property Ops and Maintenance	Review maintenance contracts expiry dates
	Consider if necessary maintenance work has been postponed
	Ensure all costs are allocated correctly e.g not included in capital expenditure
Departmental Profit	
Rooms %	Ensure front office, reservations, porters and housekeeping costs are included in payroll
	Review changes in sleeper numbers
	Ensure all charges are correctly allocated
Food and Beverage %	Ensure all invoices are included for the relevant period
	Ensure staff meals are included as a cost
	Review menu pricing to ensure not over-priced and impacting volumes
	Are supplier rebates being included that distort actual performance
Other Departmental Profit %	
Profit Before Tax	
Profit Before Tax / Net Profit %	Ensure all invoices are included for the relevant period
	Consider if any expenses (e.g. repairs, marketing, etc) have been postponed
Gross Margin	
Food %	Review menu pricing to ensure offering meets market expectation (avoid over-pricing)
Beverage %	Ensure using VAT exclusive revenue and costs
	Ensure all invoices are included for the relevant period
	Ensure correct opening and closing stock is recorded
Current Ratio	
	Review acid test ratio to ensure stock levels are appropriate
	Review any bad debts included in the debtors listing

Explanation of Terms and Bases Used

ACCOMMODATION

Occupancy Percentage

Rooms occupied by hotel guests on a paid basis.

Average Room Rate

The average room rate is defined as room sales divided by the total number of rooms occupied.

RevPAR

Revenue per available room is calculated by multiplying average room rate by annual occupancy level.

Rooms Cost %

Room costs as a percentage of room sales.

OVERALL REVENUE BREAKDOWN

Rooms

Revenues derived from the rental of sleeping rooms at the hotel, net of Value Added Tax and any rebates and discounts.

Food

Revenues derived from the sale of food, including coffee, milk and tea.

Beverage

Revenues derived from the sale of beverages, including beer, ale, wine and liquors.

Other

Revenues derived from all other sources, e.g. health club, spa, conferences, telephone, service charge etc.

EXPENSES DATA

Payroll

Payroll costs to include labour costs such as salaries, wages and employee benefits for all staff members.

Utility Costs

Utility Costs typically include electricity, fuel (oil, gas and coal), purchased steam and water, waste removal etc.

Administrative and General (A&G)

Included in this category are office supplies, computer services, accounting and legal fees, liability insurance, cash overages and shortages, bad debt expenses, travel insurance and credit card commissions.

Marketing & Franchise Fees

Marketing expense includes direct sales expenses, advertising and promotions, travel expenses for the sales staff and civic and community projects.

Franchise Fees includes all fees charged by franchise company including royalty fees.

Property Operation and Maintenance

This category includes the cost of maintenance supplies, cost of repairs and maintenance of the building, furniture and equipment and the grounds.

GROSS OPERATING PROFIT

Gross operating profit is defined as total revenue less all departmental and undistributed operating expenses.

DEPARTMENTAL PROFIT

Departmental profit is defined as the departmental sales less the departmental costs.

Rooms

Room costs (payroll and expenses) divided by room revenue, expressed as a percentage.

Food and Beverage (F&B)

F&B costs (payroll, cost of sale and payroll) divided by F&B revenue, expressed as a percentage.

Other Department Profit

Other expenses would comprise of those expenses, including labour, which offset the revenue generated by items in the corresponding revenue areas.

PROFIT BEFORE TAX / NET PROFIT

Profitability after accounting for operational costs. Profit before debt service.

GROSS MARGIN

Gross Margin is defined as revenue less costs of sales (excluding payroll).

COUNTRY OF ORIGIN

The country in which the booking originated in.

CHANNEL OF BUSINESS

The distribution channel which delivered the business to the hotel.

MARKET SEGMENT

Corporate / Business

Consortia, corporate direct and GDS bookings.

Leisure

Direct individual leisure, FIT, leisure promotional rates.

Groups

Groups delivering 10 rooms or more.

Meeting Participants (MICE)

Guests attending a meeting, incentive conference, conference or exhibition.

Web/Internet

3rd party intermediary bookings, web direct bookings (if a promo code is given to a corporate booker these room nights should be allocated to the Corporate / Business market segment).

Airline

Aircrew room nights and delayed flight crew / passengers.

Other

Room nights generated that do not pertain to the above market segments.

PERFORMANCE RATIOS

Current Ratio

This ratio will inform you of the hotel's ability to meet its current financial obligations. Current Assets (stock, cash, debtors, etc.) divided by Current Liabilities (supplier invoices, revenue liabilities, debts payable within 1 year, etc.).

Average Debtor Days

The average number of days it takes to receive payment from your trade debtors. To calculate – divide total trade debtors by credit sales and multiply by 365.

Average Creditor Days

The average number of days it takes to pay your trade creditors. To calculate - divide unpaid creditors by cost of sales and multiply by 365.

HUMAN RESOURCES

Employee Turnover

The number of employees that left a company within a certain time period and had to be replaced. To calculate this as a percentage divide the number of employees that had to be replaced in a given time period by the total number of employees in the hotel and multiply by 100.

Absenteeism Rate

Absenteeism refers to employees who miss part or whole days of work due to illness, unpaid holidays, etc. To calculate this as a percentage divide the number of absent days by the total number of employees within the time period and multiply by 100.

QUALITY MANAGEMENT

Total Cost of Complaints

Revenue lost as a result of a complaint (e.g. rate corrections) or cost of providing services to a complainant as a percentage of total revenue.