Hospitality Financial Leadership

Benchmarking and Key Business Indicators

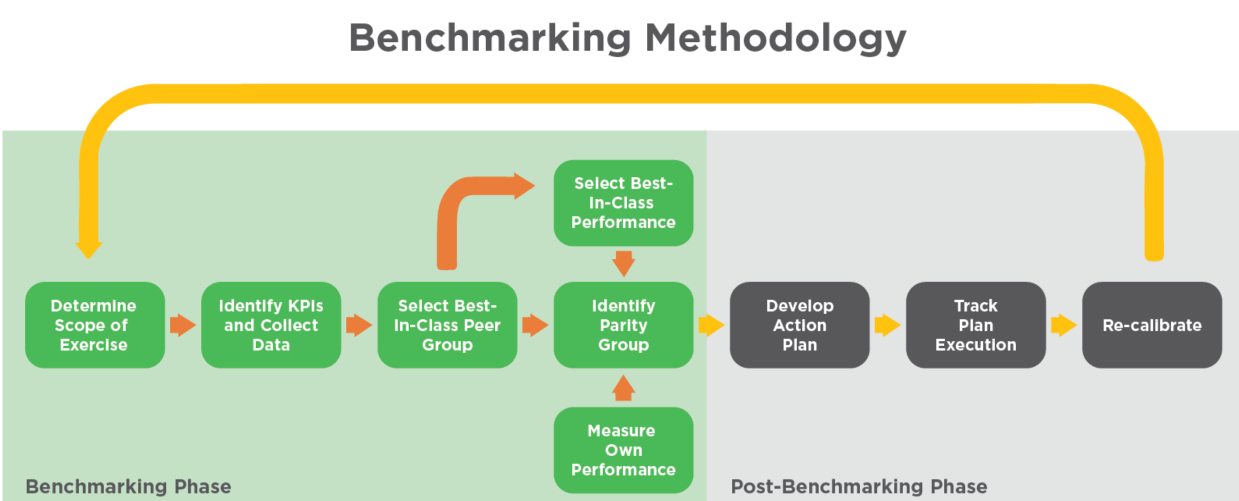
This thing in the title of this piece, I want to say was a fad that died already. Benchmarking and KBI's were all the rage a decade ago and now, today, you don't hear much at all about their usefulness or how to create them. There is a good reason they have fallen out of sight in the hospitality industry – read on to find out why.

In a former corporate life, I was the author of a quarterly exposé of benchmarking for approximately 50 different measurements for about the same number of hotels. I thought the information was revealing and it created a path forward for "continuous improvement." In this piece I am going to explain how you can gather the information and use it to improve your hotel operating results.

Let's first define benchmarking – according to the internet site Shopify:

Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, aka "best in class." The point of benchmarking is to identify internal opportunities for improvement. By studying companies with superior performance, breaking down what makes such superior performance possible, and then comparing those processes to how your business operates, you can implement changes that will yield significant improvements.

I think this chart by Inspirage shows the process best.



When I talk about the goal for hotels, I am referring to how we can learn from each other, the hotels in our company or brand. Which hotels perform the best on certain Key Business Indicators. From the first part of the analysis which is who is best, we can move to finding out why they're best. Once we examine why, we should be able to flush out what the best are doing and adopt those practices at the hotels that don't perform as well. Simple, right? Well not so fast, we have a few challenges to take into consideration and overcome in the hotel industry, even inside your own company, if we're going to be successful with our continuous improvement project.

Here are the obstacles to be aware of before you start.

1. **We're all a little bit different.** As you probably know, no two hotels are the same. Even if they look the same and they're the same size, once you go under the hood there is a long list of things and conditions that make them different. We need to be cognizant of these differences and take them into account for our benchmarking to be more meaningful.

2. **We don't always follow the book.** The Uniformed System of Accounts for the Lodging Industry is the book I'm referring to. It tells us where to record revenues, payroll, expenses, what department and what classification. The problem is not all of us follow the book. What we need to do is ensure our hotels have, and use, a common revenue, expense and payroll dictionary for financial record recording standards. Without these firmly in place the data is useless.

3. **Buy in from the team.** The process of benchmarking key business indicators requires a commitment from the top to use and adopt these uniform processes and to follow the data wherever it takes us. The culture of the company needs to be one that sits squarely in the fact that data is the way forward as it relates to getting better. Far too often we have ego and bravado trumping common sense in the hotel business.

4. **Instant gratification.** Don't expect instant results. Continuous improvement in hospitality is a game of inches. Every month, every quarter, every year we need to continue to apply the process and move in the right direction. It's not like the weather, it's more like the continental divide. Slow and steady will produce results with a significant ROI but it will take time and dedication. No easy wins here. Seldom in life do the good things come easy, remember!

5. **Make the numbers as important as the guests and the colleagues**. Not more important but just as important. Use the information you produce to help guide your decisions forward to make your business better and more profitable. Look at the benchmarking and key indicators like an astronaut would use his dashboard to guide his ship into new frontiers.

6. **We think because it's hospitality and we deal with people and creating experiences, that it's not a real and highly mechanized business.** Drop this thought immediately and remember what Peter Drucker said, "You Cannot Manage What You Can't Measure." We produce reams of valuable production data and we can benefit from measuring it, it's that simple.

Used properly, benchmarking and KBI's will allow you to find ways to continually improve your business results and inspire a whole generation of leaders who want to help you. This stuff is contagious if used properly.

Here is how to lay out the foundation to collect the data:

1. Record every single bit of your data in your financial system (general ledger) and financial statements. Create GL codes for stats and book all these numbers each month. Numbers like: hours worked by department with classification for management and hourly, food customer covers served by meal period by outlet, room arrivals and departures, head count, energy units consumed, room occupancy, rooms available, rooms sold in all segments, OOO rooms, house use rooms, complimentary rooms, employee turnover frequency, employee accident frequency and accounts receivable stats. This should be a long enough list to get your started, but don't stop there.

2. Ensure monthly compliance to the standards for recording these statistics. Establish best practices for capturing potentially discrepant stats like covers.

3. Have your operations managers and accounting team research and design these stats into your existing financial statements, and have the appropriate software programmer make the changes.

4. Have the same programmer write the reports that pull the comparable benchmarking information from all your hotels into one report for each measurement.

5. Start with simple measurements like: occupancy, rate, RevPAR, room market segment performance, average food customer covers, average wage rates, average benefit costs per hour, rooms productivity and F&B productivity.

6. Continue building your reporting engine with GOPPAR, GOP per key, rooms profit percentage, F&B profit percentage, GOP percentage, EBITDA percentage, fees per key, banquet revenue per group room, EFTE's by department both management and hourly and benefit costs per EFTE. The list of data points you can track and manage is practically endless.

7. Incorporate relative measure like the number of EFTE's per 100 rooms available to flatten out measurements for non-operating departments. These allow you to compare any size hotel's stats to another. Imagine sales EFTE's per 100 rooms available reporting across your enterprise? How about the same in maintenance or human resources? Body counts equivalents now mean a lot.

Enough said about how important it is, how much it can help you and how to get going. Now back to the beginning and I'll answer the question: Why has benchmarking fallen out of sight for hotel brands and management companies? You might think the brands and third party managers would be eating this up. With this kind of continuous improvement possible with operating results, owners would be lining up to give these managers their business. Here is the short list on why brands and third party managers don't.

1. We are no longer owner operators so there is no direct incentive for the brands or third party managers to spend a dime to do this. The brand and third party managers focus is on the top line and fees. Perhaps we need more focus on managing and improving the costs?
2. The 10 years of continuous and strong RevPAR growth in North America has meant the eye is off the middle of the statement. Why bother–times are good, profits and asset values and management fees are solid.
3. Who will pay to create all of this? To answer that we need to remember the basics. Brands mandate the standard and owners pay to maintain the standard. This applies to all areas of a brand managed hotel. What sells to branded hotels sells to franchised hotels as well.

We're all waiting patiently for the RevPAR party to end. We already have lots of warnings about rising labor costs and expenses. I think the smart hotel management company will see that it's time to get back to a process of continuous improvement and maybe this time it won't be a fad.

At Hotel Financial Coach I help hotel leaders with financial leadership coaching and workshops. Learning and applying the necessary financial leadership skills is the fast track to greater career success and increased personal prosperity. I significantly improve individual and team results with a proven return on investment.