

Financial Benchmarks for the Hotel Industry

Cowan, Guteski & Co., P.A.
Hospitality Services Group



**Cowan,
Guteski & Co., P.A.**

Certified Public Accountants & Consultants

Monmouth County: 732-741-2624 ■ Ocean County: 732-349-6880

www.cowanguteski.com

Industry: 72111 - Hotels (except Casino Hotels)
Sales Range: All Sales Ranges
Data Source : Private and Public Companies
Location: All Areas
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INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (203)	2008 (225)	2007 (620)	All Years (3334)
Current Ratio	1.81	1.81	2.18	1.73
Quick Ratio	0.97	0.97	1.39	1.07
Gross Profit Margin	69.06%	67.67%	77.57%	69.76%
Net Profit Margin	5.11%	4.93%	6.28%	4.49%
Inventory Days	13.02	13.06	9.32	13.39
Accounts Receivable Days	20.01	22.02	14.52	18.79
Accounts Payable Days	31.23	32.34	22.75	31.01
Interest Coverage Ratio	4.30	4.21	3.64	3.46
Debt-to-Equity Ratio	3.47	3.30	4.08	3.42
Return on Equity	4.77%	4.41%	8.67%	4.81%
Return on Assets	1.86%	1.67%	3.23%	2.00%
Fixed Asset Turnover	0.96	0.91	1.26	1.29
Sales per Employee	\$101,383	\$102,859	\$96,957	\$98,660
Profit per Employee	\$10,352	\$10,282	\$8,654	\$6,767
Debt Service Coverage Ratio	1.93	1.89	2.13	1.83
Growth Metric	Recent 12 Months (122)	2008 (140)	2007 (235)	All Years (1512)
Profit Growth	0.22%	-0.79%	11.97%	8.08%
Sales Growth	3.65%	2.74%	6.82%	5.01%

INDUSTRY DATA COMMON SIZE
Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (203)	2008 (225)	2007 (620)	All Years (3334)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	29.26%	30.37%	20.33%	27.48%
Gross Profit	69.95%	68.55%	78.94%	70.77%
Depreciation	7.13%	7.12%	6.96%	7.37%
Overhead or S,G,& A Expense	28.16%	28.22%	31.93%	46.06%
Other Operating Income	0.09%	0.06%	0.22%	0.16%
Other Operating Expenses	14.80%	14.08%	19.32%	23.49%
Operating Profit	10.48%	10.28%	15.33%	-15.06%
Interest Expense	4.77%	4.56%	6.00%	-4.54%
Other Income	0.05%	0.03%	0.45%	0.18%
Other Expenses	0.11%	0.10%	0.20%	0.13%
Net Profit before Taxes	3.58%	3.49%	6.23%	-21.23%
Adjusted Net Profit before Taxes	2.93%	2.91%	6.05%	-21.32%
EBITDA	18.65%	18.04%	22.63%	19.48%
Taxes Paid	0.20%	0.16%	0.43%	0.23%
Net Income	3.64%	3.43%	5.25%	29.99%
Balance Sheet	Recent 12 Months (203)	2008 (225)	2007 (620)	All Years (3334)
Cash (Bank Funds)	4.92%	4.92%	6.01%	5.75%
Accounts Receivable	3.73%	3.92%	3.75%	3.67%
Inventory	2.70%	2.82%	1.43%	2.05%
Other Current Assets	3.25%	3.14%	2.82%	3.31%
Total Current Assets	22.16%	21.96%	25.23%	22.86%
Gross Fixed Assets	108.87%	104.99%	111.94%	104.94%
Accumulated Depreciation	33.33%	30.63%	36.75%	33.48%
Net Fixed Assets	63.95%	63.46%	64.48%	62.79%
Other Assets	7.71%	7.93%	5.33%	6.79%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	3.67%	3.75%	2.99%	3.69%
Current Portion of Long Term Debt	2.94%	2.97%	2.94%	2.70%
Other Current Liabilities	8.43%	8.50%	13.85%	11.05%
Total Current Liabilities	17.66%	17.56%	21.33%	19.05%
Long Term Liabilities	67.73%	66.55%	74.61%	67.95%
Total Liabilities	84.98%	83.74%	90.19%	85.54%
Ending Retained Earnings	6.14%	7.11%	-3.71%	-5.13%
Total Equity	15.12%	16.34%	10.11%	14.84%

LIQUIDITY

What are some potential ways to improve the company's ability to meet obligations as they come due?

- ▶ Collect deposits at the time of booking. When possible, collect full payment upfront by requiring customers to pay with credit cards.
- ▶ Accept multiple forms of payment, such as credit and debit cards, to help cut down on the number of denied payments (bad checks). Watch the payment terms of credit cards since longer terms delay collection until much later.
- ▶ Sell any unnecessary/unproductive furniture or other assets the hotel may have to increase cash. These are assets that are not being utilized and are not contributing sufficiently to the generation of income and cash flow.
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis to help predict/prepare for potential future cash shortfalls.
- ▶ Rent rather than buy the hotel when appropriate and when the strategy will create savings.
- ▶ Term out some short-term debt if necessary and possible by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.
- ▶ Use a monthly or bi-monthly payroll schedule if possible -- so long as morale will not be adversely affected. This will allow funds to stay in the business longer.
- ▶ If necessary, try to establish a sufficient line of credit from the bank. The hotel should obtain, but not necessarily use, as much financing as possible. If external financing is needed, structure as long-term rather than short-term in order to decrease monthly payments.
- ▶ Monitor the impact tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- ▶ Set longer terms for Accounts Payable when possible and allowable by the vendor. For example, increase a 30 day payment window to 60 days.
- ▶ Keep an accurate payables schedule on a week by week basis. This can help the hotel know which payments need to be made each week to avoid any late charges or double billings.
- ▶ Monitor invoicing procedures to help ensure correctness. Nothing will delay payment from a customer more than sending out an incorrect bill.
- ▶ Avoid pre-paying expenses or Accounts Payable to keep funds inside the hotel (potentially earning interest) for as long as possible. Discounts may be an exception.

PROFITS & PROFIT MARGIN

What are some things the company might do to develop favorable profitability trends?

- ▶ Control waste and guest/employee theft. Implement strong inventory controls, such as inventory counts and daily room checks. Charge for missing items.

- ▶ Manage laundering costs effectively. Determine if it would be more beneficial to do laundry in-house or outsource it to a service provider. In-house laundering costs can include capital costs, utilities, space costs, and labor costs.
- ▶ Closely monitor utility usage and consider more efficient options if applicable. For instance, consider non-traditional washers such as a front loaders, which could save 40% on detergents and softeners, 30% on natural gas, and 20 gallons of water/load. Also, look for options that are faster and can be more easily installed to save on overhead costs and time.
- ▶ Adopt wellness programs for employees to control insurance costs and enhance the productivity of the workforce. For example, consider a 6 week motivational competitive exercise program to spark employees to work out and build camaraderie.
- ▶ State the hotel's policy for damage done to rooms and be sure to charge for losses.
- ▶ Remind customers to be environmentally friendly by not using too much water or by reusing towels. This can save on costs.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This allows management to have the ability to pull "variance reports" to compare budgeted revenues and expenses with actual revenues and expenses.
- ▶ Increase reservation prices selectively where possible. Done effectively, this can boost cash flow and profitability.
- ▶ Eliminate/reduce some overhead or fixed costs to decrease monthly expenses. Small decreases in overhead will typically yield large cash savings over time.
- ▶ Search out low cost and reliable vendors to get the best prices through competition, while maintaining quality. Take advantage of volume discounts if possible and beneficial (the discount needs to be larger than storage costs).
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes. Good financial reports are the backbone of management decisions.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, many hotels forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Track the effectiveness of advertising by the additional reservations generated from the campaign. Consider doing advertising/marketing in-house to reduce costs if quality can be maintained.
- ▶ Enroll the hotel in an insurance program and legal policy that provides appropriate coverage at a good cost. Meet with insurance agents and lawyers to determine ways to reduce costs by evaluating coverage and deductibles.
- ▶ Reduce payroll costs, including any overtime expenses as applicable, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.
- ▶ Make sure to turn off the lights, air, and heat in rooms that are cleaned and in those not in use. Maintain a moderate temperature. This can help save on utility expenses.

SALES

What are some things the company can consider to encourage sales growth?

- ▶ Provide additional services such as massages and spa treatments to accompany the existing accommodations. This can help attract more guests who may be willing to pay higher prices.
- ▶ Establish uniqueness and differentiation of the hotel that customers value and will pay a premium for. For example, architecture, ambiance, cleanliness, furnishings, or offering additional perks and frequent visit discounts can generate increased demand for reservations.
- ▶ Have an attractive web presence. This will potentially increase revenue by providing an extra forum for the hotel to feature its accommodations. Allow customers to check availability, make reservations, and pay online.
- ▶ Establish a niche that the hotel is known for in relation to the target audience in order to maximize revenues from that group. Examples may include hosting business events, specials on group reservations, and high quality meals if applicable.
- ▶ Emphasize customer service since it is the key to repeat business. Giving the impression that the hotel is more worried about collecting payment than the guests' welfare is breaking the number one rule of hotel customer service.
- ▶ Provide an attractive atmosphere. This includes maintaining a clean environment as well as respectable staff in the lobby and dining areas. Offering guests consistently pleasing experiences is often an effective way of securing future visits.
- ▶ Compare the hotel to other area hotels and work to meet and exceed industry standards. This can help improve the hotel's competitive position and maintain customers who may be considering alternatives.
- ▶ Send out surveys to gain feedback on performance. This may highlight areas the hotel needs to improve while keeping the hotel's name fresh in the minds of customers.
- ▶ Offer complementary services to guests. Examples include free breakfasts, internet access, and shuttle service to nearby attractions or public transit sites. Offering these types of conveniences can ease the stress of traveling and encourage repeat business.
- ▶ Communicate with guests, answer questions, and meet requests promptly to help ensure quality customer service and the highest potential for repeat visits.
- ▶ Update hotel furnishings and keep up on technology. Make sure, though, to have a budget and make updates to items that can make a large impact but not create high costs/additional work. For example, put in new light fixtures.
- ▶ Try to locate the hotel in a high traffic area such as near a busy road, mall, or other community attraction.
- ▶ Get to know local business operators in order to get guest referrals. For example, get to know the gas station operator so he/she can refer travelers to the hotel.
- ▶ Get the hotel's name out in the community. Sponsor events such as soccer tournaments where many teams will be visiting. Advertise in airports and area restaurants if applicable.
- ▶ Partner with businesses that have frequent clients visit from out-of-town. The hotel could then ensure steady reservations during the week when the hotel might not be as busy.
- ▶ Offer discounts that can attract guests to the hotel. This provides the opportunity to establish new

relationships and generate repeat business. Consider frequent visitor discounts.

- ▶ Display the achievements, testimonials, and/or news articles that mention the hotel where appropriate. This can help establish the hotel as a quality provider to potential visitors.
- ▶ Send thank-you notes and intermittent flyers to past customers to stay in touch and make customers feel valued.
- ▶ Ensure that marketing materials are consistent throughout the hotel. Look across all materials at one time to be sure that main themes, layouts, and colors are consistent. The goal of sales and marketing materials is to build an image and a brand so that people will recognize the hotel and be attracted to it.

