How to Read a Benchmarker® Report

A Benchmarker® report like any financial tool has a preferred method for improved understandability to produce optimized results. The best methodology to read a Benchmarker® report is to verify the properties, evaluate their comparability, answer the questions that the report raises, and extract maximum value from each section – the most efficient steps are:

1. review the cover sheet
2. examine the variance graph[1]
3. analyze the income statement summary, and
4. scrutinize variance table.

The first step in efficiently reading a Benchmarker® report is a review of the cover sheet that starts with verification of the report title and property identity, how the data were sorted that is a 'recap' of the original sorting criteria, which provides property type, room range, geographic area, and affiliation.

Exhibit 1

Benchmarker

Sample Cover Page

Subject Property Compared to (5) Selected Properties

Your Hotel «» City and State

Here is how the data were sorted to fulfill this order:

Property Type(s):	Full-Service
Room Range:	100 ~ 300
Area:	MSA Atlanta
Affiliation:	Chain

Room statistics for the selected group of properties:

Number of Properties	5
Average Number of Rooms	175
Occupancy - Average for Properties	72.3%
Average Daily Rate per Occupied Room	$98.54
Average Daily Rate per Available Room	$70.60

Here are the properties used in this report:[1]

Property Name	City	Rooms
Wyndham Garden	Atlanta	159
Hilton Garden Inn	Dallas	164
Holiday Inn	Orlando	180
Wyndham Garden	Miami	181
Marriott Courtyard	Atlanta	191

[1] Properties are identified in this report because no financial criteria (*i.e.*, occupancy and ADR ranges) were used to select the comparable hotels.

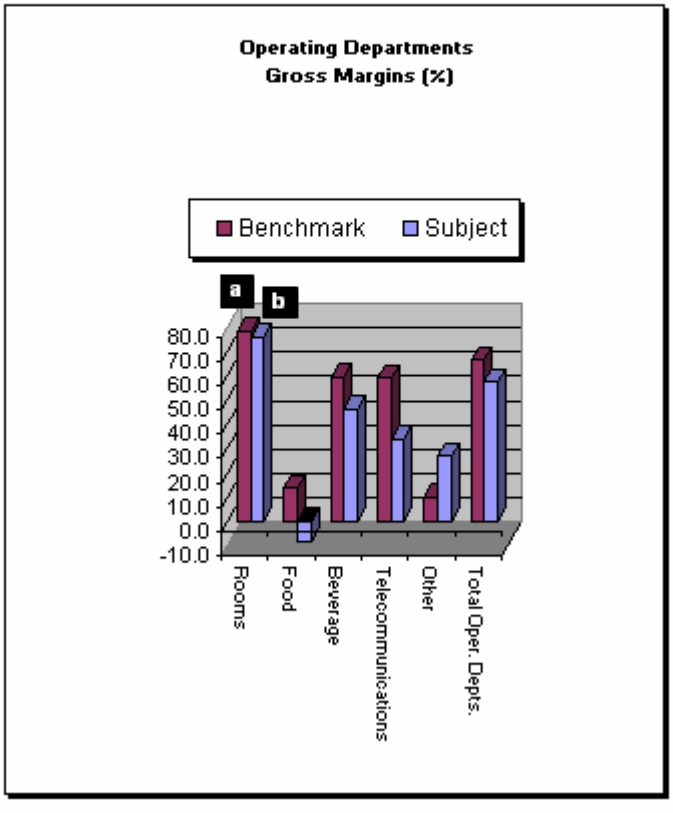
[1] If a subject property is not used go directly to step 3. – analyze the income statement summary as a variance graph and table are not provided.

The room ‘stats’ section presents new information to the reader regarding the selected group of properties, including: number of properties, average number of rooms, average occupancy, and average daily room rate – both by occupied and available rooms. The cover sheet review ends with the identities of the comparable properties being listed by name, address, and number of rooms.

The second step in efficiently reading a Benchmarker® report is to examine the variance graph as shown in Exhibit 2 that displays a quick annual performance comparison picture. The graph also summarizes the operating areas that appear most significant and which should be closely examined in the upcoming income summary statement and variance table sections.

Exhibit 2

Sample Variance Graph



The variance graph is a pictorial extension of the arithmetic calculations contained within the body of the income statement summary (*not from the variance section*), and displays how well the subject property stacks up against its competition. For a comprehensive evaluation of the variance graph (and the entire report), all sections in the report should be analyzed jointly and severally because of their inherent interdependence. Thus, to evaluate the graph, data must be extracted from the income summary statement in its tabular format and depicted in the bars in the graph. The following example explains how one ratio to revenue bar in the graph is derived:

$$100\% - \left(\frac{\text{Expenses}}{\text{Revenues}} \right)$$

For example, assume that total rooms revenue for the benchmark equals $4,509,784 and its rooms expense equals $975,646 as shown in Exhibit 3a and d, then the graph's benchmark rooms bar indicates a margin of 21.6% shown concurrently in Exhibit 3g and visually as 78.4% in Exhibit 2a.

Exhibit 3

Sample Income Statement Summary[1]

REVENUES AND EXPENSES	AVERAGE OF 5 BENCHMARK PROPERTIES				YOUR HOTEL			
	Year End 1999 ($)	Ratio To Revenue (%)	Per Available Room/Year ($)	Per Occupied Room/Day ($)	Year End 1999 ($)	Ratio To Revenue (%)	Per Available Room/Year ($)	Per Occupied Room/Day ($)
Revenues								
Rooms	**4,509,784** a	**77.5** f	25,770 h	97.65 i	**4,774,167** j	**65.0** l	23,752 n	90.24 o
Food	**829,567** b	14.3	4,740	17.96	1,009,218	13.7	5,021	19.08
Beverage	141,195	2.4	807	3.06	1,048,455	14.3	5,216	19.82
Telecommunications	178,572	3.1	1,020	3.87	77,082	1.0	383	1.46
Other Operated Departments	146,548	2.5	837	3.17	356,557	4.9	1,774	6.74
Rentals and Other Income	13,312	0.2	76	0.29	78,041	1.1	388	1.48
Total Revenues	**5,818,978** c	100.0	33,251	126.00	7,343,520	100.0	36,535	138.81
Department Costs and Expenses								
Rooms	**975,646** d	**21.6** g	5,575	21.13	**1,170,133** k	**24.5** m	5,822	22.12
Food	**716,462** e	86.4	4,094	15.51	1,089,999	108.0	5,423	20.60
Beverage	57,576	40.8	329	1.25	562,052	53.6	2,796	10.62
Telecommunications	73,360	41.1	419	1.59	51,027	66.2	254	0.96
Other Operated Departments	131,828	90.0	753	2.85	260,973	73.2	1,298	4.93
Total Costs and Expenses	1,954,871	33.6	11,171	42.33	3,134,184	42.7	15,593	59.24
Total Operated Departmental Income	3,864,107	66.4	22,081	83.67	4,209,336	57.3	20,942	79.57

[1] For brevity this sample does not display undistributed operating expenses, management fees, property taxes, or or insurance.

The same formula is seen in the subject's bar with its numbers displayed as:

$$100\% - \left(\frac{\$1,170,133}{\$4,774,167} \right)$$

that results in a margin of 24.5% as calculated in Exhibit 3k, j, and m, and displayed pictorially as 75.5% in Exhibit 2b. When the benchmark and subject bars are viewed next to one another in the graph, the variance between the two readily becomes clear. The remainder of the variance graph is calculated in the same manner, where only revenue-producing departments are displayed.

After completing the analysis of the graph an overview reveals that the subject is under performing in every department except total operative departments – how is this possible? The possibility exists because a Benchmarker® report is conceptually designed to *compare the subject property against itself first then its competitors*.

The third step in efficiently reading a Benchmarker® report is seen in the income statement summary's ratio to revenues column by using the monetary amounts in the first column to arrive at the percentages by dividing each line total into total revenues depicted as:

$$\$4,509,784 \ / \ \$5,818,978 \ = \ 77.5\%.$$

that is seen in Exhibit 3a, c, and f.

Next, the third column in the income summary statement, per available room/year (PAR), provides the reader an avenue to compare different size properties (in this case the benchmark) with one another on an *annual* basis by dividing the revenue column with the number of rooms in the property, or:

$$\$4,509,784 \ / \ 175 \text{ rooms} \ = \ \$25,770$$

which was taken from Exhibit 3a and the number of properties in the room ‘stats’ section on the cover sheet.

The fourth and final column in the income summary statement, per occupied room/day (POR), provides information on a *daily* average occupied basis that is calculated by the formula:

Rooms revenue / (total occupied rooms + total complimentary rooms)

$4,509,784 / (45,765 + 416) = $97.65

and is seen in Exhibit 3a and i. The room occupied and complimentary room amounts were taken from a sample.

Lastly, the group of departmental costs and expenses are calculated somewhat differently, where the rooms cost are divided into its rooms revenue as seen in Exhibit 3d and a, and food costs are divided into food revenue also seen in Exhibit 3e and b, etc.

For brevity, Exhibit 3 does not show the bottom half of the income summary statement, which lists undistributed operating expenses, management fees, property taxes, and insurance.

The fourth and final step in efficiently reading a Benchmarker® report is to scrutinize the variance table that contain the same four fields of data in the income summary statement - total revenue, ratio to revenue, PAR, and POR.

Exhibit 4

Sample Variance Table

REVENUES AND EXPENSES	VARIANCE - SUBJECT VS. BENCHMARK (%)			
Revenues	Dollars	Ratio To Revenue*	Per Available Room/Year	Per Occupied Room/Day
Rooms	**5.9** a	**(12.5)** b	(7.8) c	(7.6) d
Food	21.7	(0.5)	5.9	6.2
Beverage	642.6	11.9	546.5	548.2
Telecommunications	(56.8)	(2.0)	(62.4)	(62.3)
Other Operated Departments	143.3	2.3	111.8	112.4
Rentals and Other Income	486.2	0.8	410.4	411.8
Total Revenues	26.2	0.0	9.9	10.2

This table is best analyzed by taking the difference between the rooms revenue of the subject and the benchmark and dividing by the benchmark's rooms revenue, shown as:

($4,774,167 - $4,509,784) / $4,509,784 * 100 = 5.9%.

and seen in Exhibits 3j, a, and Exhibit 4a. The ratio to revenue column is the difference between the subject and the benchmark as:

65.0 – 77.5 = -12.5%.

and shown in Exhibit 3l, f, and Exhibit 4b.

The variance percentages for PAR in the third column are calculated as:

($23,752 - $25,770) / $25,770 * 100 = -7.8%

as seen in Exhibit 3n and h, and Exhibit 4c.

The variance percentages for POR in the fourth column are calculated as:

(90.24 – 97.65) / 97.65 * 100 = -7.6

as seen in Exhibit 3o and i, and Exhibit 4d.

For the deepest analysis possible, after analyzing the cover sheet, variance graph, income statement summary, and variance table, each subsequent report, payroll and the six departmental reports, should be methodically examined in the

same manner. Any significant areas should be noted for further examination down to their root – the department and its employees.

The majority of questions that were raised and noted in the first four sections of the report should have answers in the seven remaining reports. If not, additional external tools may be employed such as industry publications and ratios that are useful to the industry.

Further Investigation and Extracting Value

Because benchmarking is presently used in industry for contractual agreements and bonus calculations, the need for further investigation is vital.[2] To achieve unbiased results in contracts and bonuses, benchmark results can be used with other industry tools to ensure accuracy of the same. For example, while Benchmarker® is a micro view of a property's annual bottom line performance HRG's TRENDS® publication report can assist with performance connectivity on a macro level. Together micro and macro views of performance are able to form a solid negotiating and settlement base, free of dispute.

Additionally, numerous pieces of information from the reports can be used in conjunction with industry ratios, which can help answer the broad question of how the hotel is performing? This question depends on who is asking.[3] The following brief illustration connects a property's performance to the correct ratio, and the ideal user.[16]

Performance	Ratio	User
Effective use of assets	Activity	Asset managers
Management effectiveness	Profitability	Owners
Operation efficiency	Operating	Management firms
Obligation & Debt	Liquidity & Solvency	Creditors & lenders

[15] *Qv*, Mandelbaum, "How to benefit from the 1998 Bed-and-Breakfast/Country Inn Industry Study." Lodging Analysis (1998), 9-13.
[3] Qv, see Schmidgall and Singh, "What's Your Bottom Line?" *AAHOA Hospitality* (November 1998): 71, 75.

For example, with the correct tools, an owner is able to oversee their management's effectiveness by calculating overall profit through the ratio that appears as:

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Total Revenue}}$$

Or:

$$\text{Profit Margin} = \frac{\$1{,}822{,}725[4]}{\$7{,}343.520}$$

with results of 24.8%. When the identical ratio is computed with the benchmarks numbers of $2,166.576 / $5,818,978, it results are a 37.2% - the outcome shows the subject's performance in this regard is superior.

To extract the most benefit from all the reports, each party in the property's chain from the owners, management company, managers, supervisors, even rank and file employees should be consulted – for past performance and future expectations. Together, the entire chain has the ability to identify and capture the highest achievable profits with the mantra - if a comparative group of hotels are capturing superior profit levels, it is probable to duplicate - because the subject now possesses the best industry tool with which to work.

Note: the reader should remember that the benchmarker is not a standard (like the USALI), and ratios by themselves can be good or bad but not bankable! Also noted, say Schmidgall and Singh that "Users of ratios need to compare a particular ratio with a standard." In this symbiotic ratio/standard relationship bottom line benchmarking is capable of fulfilling a necessary link – and every savvy benchmark user is able to identify and capture their maximum profits – good luck.

[4] Taken from a proprietary sample report.