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## **Benchmarking: A critical tool for effective hotel asset management**

January 13, 2010 - Front Section

To maximize the value of a hotel, the asset manager should constantly be assessing the property's performance. Hotel performance can be measured relative to its own performance in prior periods (variance analysis) or relative to comparable and or competitive hotels (benchmarking). Variance analysis is fairly straightforward and an important component of effective asset management, however, it is limited in its scope by focusing only on the property without regard for the market. Benchmarking provides context which can be used for further research and analysis that can help drive strategic decisions.

Most commonly, benchmarking is used to measure revenue performance through reports generated by Smith Travel Research (STAR reports) and Travel Click (Hotelligence Reports), however, there are also tools for benchmarking expenses as well as guest satisfaction, and even employee satisfaction (within chains). This article will highlight critical considerations when benchmarking and outline some of the benchmarking tools available.

### **Getting the Most of the Data**

The single most important element to consider when benchmarking is context. A thorough understanding of the subject hotel and those that it is being benchmarked against is critical for effective analysis. There are a number of factors that could affect a property's performance relative to its comparative or competitive set, such as its condition, location, facilities, orientation, and brand affiliation. Each of these factors could affect how the subject property performs in certain areas, at certain times of the year relative to its set, and all must be considered in order to most effectively evaluate its performance.

In addition to context, the veracity of the benchmarking data should be considered. While STAR reports are considered to have a very high degree of accuracy, other reports can be less accurate. For example, Judy Singer of Health Fitness Dynamics recently published an article in which she pointed out that, "There are too many studies that lack credibility, integrity, quality and reliability, yet they receive significant press coverage." At Pinnacle, we have also seen misleading data resulting from inconsistent accounting allocations when using a small sample size. Small sample sizes can also affect the data due to the way that they can magnify the impact of one property within the sample. In summary, any data used in benchmarking should be carefully considered, not only for proper context but also for its validity.

### **Revenues**

Smith Travel Research has built an empire based on the benchmarking of hotel revenues through its STAR reports. Initially there were monthly STAR reports that measured occupancy, average daily rate and RevPAR for a group of hotels relative to a subject hotel. STAR reports have now expanded to track daily revenue performance data, revenue performance by demand segment, and weekday

versus weekend revenue performance. Another tool for benchmarking revenue performance is the Hotelligence report from TravelClick. TravelClick actually produces a series of reports that are useful for measuring a hotel's performance within the transient sector. The Hotelligence report tracks room nights captured through the Global Distribution System (GDS). The Hotelligence futurePACE report provides forward looking data based on room nights booked through the GDS. Hotelligence Rateview is a rate-shopping tool that gathers data from travel websites, brand sites, and the GDS. While Smith Travel Research and TravelClick are the dominant players in market intelligence and revenue benchmarking, there are numerous other niche players. For example, we at Pinnacle produce a booking pace report that tracks the definite group room nights on the books for various sets of hotels in New York and Boston. There are also several firms that gather data on spas.

### Expenses

There are two firms that gather hotel operating statistics on a national basis, Smith Travel Research and PKF Hospitality Research. Both companies provide data on revenues and expenses broken down by department. Smith Travel Research and PKF both produce summary reports, covering national data broken into segments, and custom reports based on a set of hotels selected by the purchaser. Smith Travel Research produces the HOST study that covers 5,000 hotels in the US. The PKF Benchmarker report has a slightly smaller participation base.

Arguably the most important cost area for hotels is labor. While Smith Travel Research and PKF provide data related to labor expenses, they do not track wage rates. Wage surveys tend to be very regional. They are often undertaken by local lodging associations, or visitor's bureaus on behalf of their members. Pinnacle Advisory Group prepares a wage survey for Massachusetts each year on behalf of the Massachusetts Lodging Association.

### Guest Satisfaction and Employee Satisfaction

Benchmarking satisfaction is very challenging. It is not only hard to measure but there is very little consistency in the tools used. Nonetheless, benchmarking can be useful in evaluating employee and customer satisfaction, particularly for new hotels. For guest and employee satisfaction, the chains have developed on-line measurement tools that are consistent across the country so that one hotel can be compared to the rest of the chain. For independent hotels, there are companies such as Unifocus that track guest and employee satisfaction data for a number of hotels and by using a consistent survey tool are able to provide benchmarking capabilities.

### Conclusion

Benchmarking is a critical tool for measuring, and thus working to improve hotel operating performance. It is important to remember though that it should not be used in a vacuum. To be most effective, it should be carefully considered and analyzed before being used for further research or to make strategic decisions. This article has highlighted several benchmarking tools but they are not inexpensive, operators and asset managers should regularly evaluate these tools to ensure that they are getting as much value as possible.

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