FINANCIAL RATIOS

Two of the most critical challenges hospitality managers-in-training face as they start their careers are the calculation and interpretation of financial ratios. The ratios that supervisors and managers use most are calculated from operational data gathered in income statements and balance sheets. There are several important operational ratios that can be worked out from income statements:

• Occupancy percentage. Rooms sold : rooms available

This ratio explains the management’s ability to sell rooms. The U.S. rate for hotel average room occupancy has been between 60 and 70 percent.

• Cost of labor percentage. Payroll +related expenses : total revenue

This ratio is useful to monitor labor costs. It can be interpreted as an indicator of productivity. Average percentages depend on the property and on the department. A “normal” rooms division ratio would be between 18 and 22 percent of sales. A “normal” F&B department ratio for a full-service property would be 35 to 45 percent of total F&B sales.

• Cost of food sold percentage. Cost of food sold : food sales

This ratio shows the profitability of food sales. A higher ratio than budgeted usually indicates the need for better control. Average percentages depend on the type of operation. Although a quick-service restaurant could have a percentage as low as 25, a full-service hotel may run food-cost percentages between 35 and 45.

• Cost of beverage sold percentage. Cost of beverage sold : beverage sales

As with the cost of food sold percentage, this ratio compares cost of the product to product sales. Averages for the industry depend on the type of property and the quality of the product served. An independent bar could cut the percentage to between 15 and 20 while that of a full-service property usually ranges between 20 and 25.

• Average daily rate (ADR). Room revenue : paid room nights

This dollar figure is key to generating income. If costs are kept under control, a higher rate will increase the property’s bottom line.

• Profit margin. Income : revenue

This ratio indicates the property’s bottom line: measuring the management’s ability to generate revenue and to control expenses, it is the measure of profitability. Profit margins for the rooms division of well-managed hotels range from 70 to 75percent. Profit margins for F&B departments should range between 15 and 25 percent on average.

• Total revenue change from budget. Actual revenue - budgeted revenue : budgeted revenue

This ratio indicates the situation relative to budgeted sales. It reflects whether an individual department or property is ahead of or behind its projected revenues.

• Housekeeping cost for occupied room. Total housekeeping costs : total rooms sold

This ratio indicates how costs are being controlled in the housekeeping department by comparing them with budgeted amounts.

• Rooms sales to total sales. Rooms revenue : total revenue

Generally, rooms are the major generators of revenue in lodging properties. A high percentage is usually a strong indicator of profitability.

• Total rooms division payroll per occupied room. Total rooms division payroll : rooms sold

This is a measure of productivity for the rooms division. The lower the number, the higher the productivity will be.