

# teaching note

## *Hotel Benchmarking Task Force: A case study*

### Learning Objectives

#### *Students completing this case study will be able to:*

1. Discuss the utility of performance benchmarking in a multi-unit organization.
  - a. This case uses an “upper quartile” benchmarking process in which the various metrics from the top performing units are used to establish performance goals for the remainder of the units. The instructor may choose to discuss the process of linking these performance benchmarks to unit budgets and management incentive compensation/sanctions and to discuss the use of benchmarking to encourage “friendly competition” within a multi-unit organization.
2. Examine market share and use it to make business decisions.
  - a. The case provides both unit and benchmark information about market share performance. This provides an opportunity for the instructor to discuss the concept of market share rather than raw volume or dollars as the critical measurement of unit revenue performance. Market share has long been a very critical performance measurement in the hotel industry.
3. Outline the service-profit chain and the importance of measuring guest satisfaction.
  - a. The case uses a fairly standard set of guest response measurements. This can provide the instructor with an opportunity to discuss the importance of these measurements, analyze their correlation and also discuss the difficulty in translating guest satisfaction scores to a profit measurement. The focus of the case is deliberately on the financial analysis and “fixing the profit issues first”, however a discussion about the components of guest satisfaction is an important tangent of the case.
4. Utilize productivity measurement to benchmark labor costs.
  - a. The key concept here is the measurement of productivity (man hours per unit sold) as a benchmark, rather than a labor dollar cost or a percentage of revenue method. In a multi-unit operation, the wage rates are different in various markets and not generally in the control of local management, and so in order to most appropriately measure the unit performance benchmarks are focused on productivity. This is a critical element of this case and a very important concept for students to understand.
5. Assess fixed and variable expenses.
  - a. Instructors will have the opportunity to demonstrate the

behaviour of fixed and variable expenses in the context of unit management control and in the estimation of profit improvement whether based on price or volume. This is an excellent applied approach to these concepts.

6. Evaluate the implications of specific profit improvement recommendations.
  - a. Explain the line item, justification and prioritization.
7. Communicate the results of analysis and recommendations for improvement in a professional and convincing manner.
  - a. The case study is designed so that instructors may have each group present one or more of their findings and recommendations to the class. This opens up rich and engaging conversations in the classroom and the opportunity for deeper learning about the impact or reasonableness of the various improvement recommendations. It also allows the instructor to discuss the importance of using and influencing rather than coercive management style.

### Class Instruction

#### *Prior to Class*

1. Instructors should review the excel file which accompanies the case (the contents of this file are included in this document as figures) and make any adjustments they choose in order to emphasize or de-emphasize areas.
  - a. Instructors should determine how many specific items they wish to have the students identify as a requirement of the case, and how many recommendations for management action that need to be included. This is a factor of the time the instructor wishes the students to devote to the case and/or the time available for presentation. The case itself should be modified to reflect this decision. In the case as currently written there are 5 areas to be identified, and 4 specific recommendations for each of these.
  - b. Instructors should also decide which areas they wish to include/exclude in the case. For example, the instructor may elect to eliminate the Guest Satisfaction data or the balance sheet data in order to focus the case strictly on the income statement and benchmarking data.
  - c. It is helpful for the students if the excel file (as modified by the instructor) is made available to them electronically. Much of their calculations for profit improvement may be made directly on the spreadsheet without the necessity of re-entering data.

- d. Instructors may also want to change the years reflected in both the case study and the associated excel file to keep the dates “current”.
  - e. If the instructor chooses to add budget variance analysis using the benchmark costs per unit as the basis for the budget, they could simply add a budget column to the income statement schedules
2. Prior to class, students should be asked to read the case study and any additional reading materials on benchmarking and multi-unit performance the instructor selects to make available.

## Phase I - 50 to 75 minutes

This class period has three important topics that will help students understand the theoretical context of the case study.

1. The need for continuous Improvement.
    - a. Begin the class with an open discussion about the need for a business to continually evolve and improve in order to remain successful. The following are some recommended discussion points.
      - i. Continual improvement is a requirement of all business. The status quo is not ever acceptable. Those businesses which achieve greater market share and profitability are able to grow faster, attract and retain top talent, and access capital markets less expensively.
      - ii. A business must improve faster than its competition is improving, or it will become less competitive by definition. Simply “being good” is not enough.
      - iii. In the hotel industry, achieving a sustainable competitive advantage – one which may not be easily replicated by competitors – is extremely difficult because the consumer experience is always public.
        1. This is an opportune time for the instructor to ask for current, real life examples of new ideas which have been replicated by competitors. Some early examples are the introduction of 800 numbers for reservations, the introduction of frequency programs, upgrading bedding and guest amenities, in room entertainment, and more recently, mobile check-in and smartphone guest room entry.
2. The importance of external (industry) competitive benchmarking.
    - a. Continue by introduce the concept of benchmarking as a tool both measure competitive positioning and to improve performance. Discuss with the class the sources of industry benchmarking information, such as STR Global’s marketing and profitability (HOST) performance data.
    - b. The instructor may assign students the task of identifying sources of industry benchmarking they can find on the internet (either publically available or through private companies).
  3. Internal benchmarking for multi-unit companies.
    - a. Despite either highly similar or identical physical layouts, equipment, standards policies and procedures, and production specifications – there is always a level of variability in performance.
      - i. Ask the class where they may have experienced something unexpectedly different in a multi-unit chain (for example a great experience in one and a poor experience in another).
      - ii. Discuss what the reasons for this variability might be– given the standardization above. Steer the conversation to the inevitable conclusion that these variances may be largely attributed to the leadership of the units.
    - b. Introduce the students to the concepts of internal performance benchmarking.
      - i. The methodology by which the most important metrics are identified and measured.
    - c. The identification of a “best performing group” of units, typically the upper performing quartile. Note that his case study uses the upper quartile as the performance goal for the company.
      1. Explain why it is helpful to use the average of a group of high performing units, rather than the single best performing unit to establish goals.
      - iii. The use of this information to establish unit budget performance goals, incentive compensation, and sanctions/disciplinary action for units

that are “failing”.

iv. How internal metrics can be used to continually raise the performance bar for a company as a whole, and against its competition.

## Phase II - 50 to 75 minutes

This class period will focus the students on the critical benchmarks of the case. The instructor should address how they are determined, why they are important, and how the financial impact of improvement may be calculated. It is important that for each of these areas, the instructor demonstrate how changes in these would impact profitability. It may be helpful for the instructor to provide the calculation reference included in this case (Figure 8) for the students to use for their calculations.

### 1. Market Share

a. A critical point to emphasize is that in the hotel industry, the hotel does not control demand. There is a finite demand coming into a market on any given day, and all hotels are fighting over this limited pool of guests. Therefore, measuring “success” by absolute increases or decreases in revenue is not particularly useful.

i. As a simple example, discuss with the class what would happen if a hotel achieved a year-over-year RevPar growth of 5%. Would the management be deemed successful?

ii. Now discuss what that would mean in the context of a 10% RevPar growth in that market or competitive set. Would the management still be deemed successful?

b. Introduce (or reinforce) the concept of a “competitive set” – those hotels in each market with which an individual hotel competes.

i. In the hotel industry, this information is generally available through STR Global.

c. A business should be measured by the share of the demand they capture – whatever that demand is in a given market. Ideally, each unit should capture the share of demand being captured by the units in the upper quartile or other company benchmark. If demand in a market is increasing, the unit must be able to capture a relative portion of the increasing demand. This is true also in declining demand situations.

d. Demonstrate the financial implication of improving market share

i. Occupancy (or ADR or RevPar) divided by current market share (%), then multiplied by goal market share (%). This would equal the Occupancy

(or ADR or Revpar) of the unit if it had achieved the goal market share.

ii. Subtract the actual revenue from the revenue achieved at goal. This would equal the growth in revenue if the goal market share were reached.

iii. Discuss how that additional revenue would be converted to profit

1. Instructors may elect to briefly discuss fixed versus variable costs at this point, or to cover this in depth.

2. This is an opportunity to discuss the differences in profitability that may be achieved by either increasing occupancy (volume) or ADR.

### 2. Payroll productivity

Discuss why the use of payroll productivity as measured by man-hours per unit produced (an occupied room night in this case) is a more effective measurement than payroll dollars or payroll as a percentage of revenue.

Wage rates vary by location, and are driven by legislative and competitive factors not necessarily under the control of management. A hotel in Orlando, Florida would have a very different hourly wage rate and related benefit costs than a hotel in Manhattan.

Have the students go to the Bureau of Labor Statistics, Occupational Employment Statistics page for North Dakota as an example of where very high labor demand is driving up wage rates for jobs of all kinds in the area.

Given the standardizations of the multi-unit organization, what can and should be measured therefore is the amount of time it takes to produce one unit (occupied room night). This would be the same regardless of location, and is largely controllable by management. Have the class provide you with the tasks management can perform to insure staff is working at their most productive. Some likely items which will arise for discussion are:

Adherence to staffing guides.

Forecasting accuracy and scheduling to forecasted demand.

Aggressive management of overtime.

Training, setting and maintaining expectations.

Making certain all equipment needed is available and in working condition.

Demonstrate the calculation of financial impact that would be achieved by bringing any one job from a “current” low level of productivity to a benchmark. Instructors may select one job from the case, or use a simple hypothetical example if they wish.

Change in productivity per unit X number of units sold = change in man hours (at the given volume produced).

Multiplied by the rate per hour and the benefit expense per hour (either as a dollar per hour or a % of payroll wage expense).

Highlight for the students the impact of benefit cost on productivity improvement and the fact that these improvements can mean significant financial changes to a business unit.

#### Direct Expenses

Discuss the importance of management understanding those direct expenses which are variable and those which are fixed or semi-variable.

Instructors should demonstrate where the benchmarks have been published in the case for direct expenses per occupied room, however there are both variable and fixed costs in the case.

Instructors should demonstrate for the class the calculation of profitability if a direct expense were to be reduced (fixed or variable).

NOTE ON TRANSPORTATION EXPENSE: Instructors will note that this unit has both payroll and direct expenses related to “Guest Transportation” but there is no benchmark. This is deliberate. For this particular brand, offering guest transportation is a choice made at the property level driven by location and competition and is not a universal brand standard. This particular line item generally gives rise to a rich discussion about brand standards and the cost/value of providing something beyond a required standard. We typically have a conversation around “Is this a buying decision by enough of the guests to pay for this expense?, and if not, it could be eliminated.

#### Phase III - Student Completion of Case

In this phase, students will complete their work to identify the X (instructor determined number of items) most financially impactful areas on which the management team to focus, and their recommendations for X (instructor specified number) specific action steps management should take for each.

Instructors may choose to have this work completed outside of class, or to devote some or all of one class period to allow the students to work in their groups (or individually) and ask specific questions. The authors find the later method to be very helpful, and it allows the instructor to answer any one question from a team (or individual) for all of the team members simultaneously.

The case is structured so that the end product is a professionally phrased letter to the management of the failing hotel unit outlining the team (or individual's) findings and recommendations. Instructors may wish to modify this requirement so that the team (or individual) is responsible to present one or more of their solutions to the class.

### Additional Reading

Bowen, J. T., & Chen, S. L. (2001). The relationship between customer loyalty and customer satisfaction. *International Journal of Contemporary Hospitality Management*, 13(5), 213-217. doi: [10.1108/09596110110395893](https://doi.org/10.1108/09596110110395893).

Czarnecki, M.T. (1999). *Managing by measuring: how to improve your organization's performance through effective benchmarking*. New York: AMACOM 1999.

North Dakota Occupational Labor Statistics (2014), Bureau of Labor Statistics, U.S. Department of Labor. Retrieved from [http://www.bls.gov/OES/Current/oes\\_ND.htm#35-0000](http://www.bls.gov/OES/Current/oes_ND.htm#35-0000).

Reynolds, D. (2004). An exploratory investigation of multiunit productivity assessment using data envelopment analysis. *Journal of Travel & Tourism Marketing*, 16(2-3), 19-26. doi: 10.1300/J073v16n02\_02.

STR Global (2014). [www.strglobal.com](http://www.strglobal.com)

Yasin, M. M., & Zimmerer, T. W. (1995). The role of benchmarking in achieving continuous service quality. *International Journal of Contemporary Hospitality Management*, 7(4), 27-32. Doi: 10.1108/09596119510083238.