

# 15 Hotel KPIs

to Track Your Business Performance



## Table Of Contents

What are hotel KPIs?

How to use this guide?

Tips to improve the KPIs

Why are the KPIs important?

Exploring all the KPIs



## What are hotel KPIs?

Any business, big or small needs to watch its performance periodically to evaluate its success.

Even the hospitality industry is not unknown to that fact.

The key performance indicators (KPI), therefore, are used at various levels to determine the overall success of a business.

Similarly, hotel KPIs measure a hotel's performance through several aspects.



## Why are hotel KPIs important?

KPIs are used at various levels to determine the overall performance of a business.

For hotels, there are numerous key performance indicators that play a major role in improving their efficiency and get more bookings.

Thereby, you cannot overlook your hotel KPIs even in the slightest.

We've listed 15 of those hotel KPIs which you need to focus on to track your performance. In addition, we're giving you the BEST TIPS and ACTIONABLE STEPS to improve those metrics for your business.

# How to use this guide?



Understand each KPI in this guide.



Measure and improve relevant ones for your property.



Analyze results.



Continue optimizing the KPIs.

**Disclaimer:** The KPIs mentioned in this guide are generalized for all property types. All KPIs are not for everyone. Choose the right KPI for your property on the basis of the mentioned points and your convenience.

## Which are the hotel KPIs?

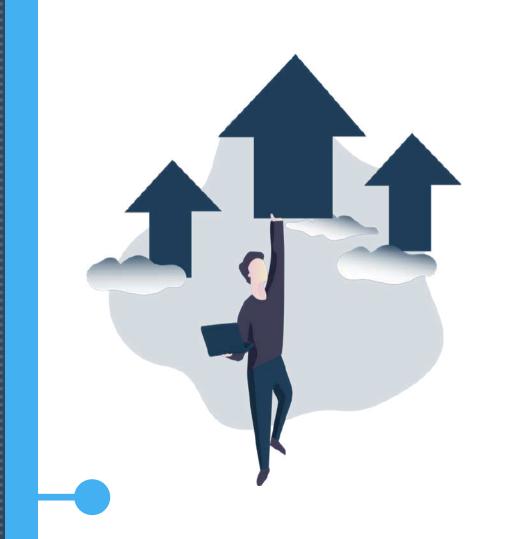
- Hotel Occupancy Rate
- Hotel Average Daily Rate (ADR)
- Hotel Revenue Per Available Room (RevPAR)
  - TrevPAR
  - NRevPAR
  - GOPPAR
- EBITDA
- Total Hotel Revenue and Total Bookings
- Revenue and Bookings by Business Sources

- Average Length of Stay (ALOS)
- Average Rate Index (ARI)
- Average Booking Lead Time
- Marketing Return On Investment (ROI)
- Hotel Website Conversion Rate
- Average Revenue Per Guest
- Inquiry vs Bookings
- Cost per Bookings
- Cancellation Rate



Don't get scared of this long list!

You'll love these when they'll help to grow your business



# Let's go through each KPI in-depth



## **Hotel Occupancy Rate**

The hotel occupancy rate is the most basic metric for hotel performance measurement where,

Example: You have 50 rooms in total, of which 20 are empty and 30 are booked. Then, calculate the occupancy rate as:

Occupancy Rate = 
$$\frac{30}{50} \times 100 = 60\%$$

You can analyze the occupancy rate daily, weekly, monthly or yearly to see how well your hotel is performing.

This metric is dependent on the NUMBER OF BOOKINGS you get. And factually, your hotel revenue is dependent on your occupancy.

## How to improve this KPI?

So, you need to increase your number of bookings to grow your occupancy rate and thereby revenue.

Increase bookings by implementing various <u>hotel revenue management strategies</u>, as well as consistently follow strong marketing techniques.



# Hotel Average Daily Rate (ADR)

Hotel ADR is the average price that a guest pays per room on a specific day. This metric is connected to the revenue you earn and is important to measure your hotel performance.

**Example:** If the total revenue earned from 20 occupied rooms is 5000 USD. Then,

Hotel ADR = 
$$\frac{5000}{20} = 250 \text{ USD}$$

**Disclaimer:** Occupied rooms here don't include: Complimentary rooms, rooms occupied by staff or owner, no-shows, and cancelled bookings for which charges are levied.

Basically, this KPI indicates your average income per occupied room. It is somewhat connected to the room rates you charge to your guests and the occupancy you receive.

If your room rates are higher, you'll earn higher revenue provided that you get more bookings; leading to higher ADR of your hotel.

## How to improve this KPI?

To improve this metric, you need to set a proper pricing strategy for your hotel rooms. Additionally, you can upsell your services (amenities) and offer discounts on extended stays.

Apply these best tricks to improve your **hotel ADR**.



## Revenue Per Available Room (RevPAR)

Hotel RevPAR measures the revenue that your rooms have earned over a period of time. This metric does not include other revenue sources like food and beverages, spa, laundry, room service and tours.

**AND** 

RevPAR = Hotel ADR \* Occupancy Percentage

**Example:** Your total room revenue for today is 5000 USD, and you have 20 available rooms.

$$RevPAR = \frac{5000}{20} = 250 USD$$

#### RevPAR has several sub-divisions such as:



Let's have a look at each one...



## **TRevPAR**

This hotel KPI accounts for total revenue earned from all your operational departments.

It is a sum total of net revenues from all the departments, rentals and other income for a particular period divided by the total available rooms during that period.

Total Revenue

To calculate : TRevPAR = 

Total Available Rooms

[Here, Total Revenue = Total Room Revenue + Spa + Breakfast + Bar + Mini Bar + Room Service + any other income]

This helps the hotel management and finance team to gauge your hotel's capacity to fill your rooms as compared to the actual performance.

## **NRevPAR**

It is similar to RevPAR, except that it takes into account ONLY the net revenues you earned. It DOES NOT include your expenses such as distribution costs, transaction fees and travel agency commissions.

To calculate : NRevPAR = Room Revenue - Distribution Costs

Available Rooms

Since these expenses are quite challenging to extract, hoteliers don't generally go for this metric.

However, this is an extremely crucial aspect for revenue managers to plan hotel's distribution and measure the results of your revenue management strategies.





## **GOPPAR**

This indicates the actual profit you earned; after deducting your distribution costs, other operational expenses like maintenance, hiring staff, and more.

To calculate: GOPPAR = Gross Operating Profit

Available Rooms

OR

Gross Operating Revenue - Gross Operating Expenses

GOPPAR = Available Rooms

It also helps you make adjustments to your current policies and structures while maintaining your bottom line.

In a nutshell, it indicates your hotel's value, hence; one of the most effective ways to monitor your hotel's performance.

RevPAR is a measure of your hotel performance that determines and indicates your capacity to fill the rooms.

Since the number of rooms doesn't matter here, it is possible that a large property is making more money with a lower RevPAR and lower occupancy.

Use this KPI to compare: this year's performance with last year's and track your growth.

### How to improve this KPI?

This hotel KPI is directly proportional to your occupancy rate. So, higher your occupancy, better your RevPAR.

Aim to increase your occupancy, get more bookings and sell rooms at a good price. Here are some of the best ways to grow your <u>hotel RevPAR</u>.



## **EBITDA**

Tough to read? Relax.
It means Earnings Before Interest, Taxes, Depreciation and Amortization.

It is measured by taking your hotel's expenses before interest, tax, amortization and depreciation. And, subtracting them from your hotel's total amount of revenue.

To calculate: EBITDA = Revenue - Expenses\*

[Here, expenses are excluding interest, taxes, depreciation and amortization.]

**Example**: Your total revenue for the year 2019 is 1,000,000 USD and your total expenses are 750,550 USD.

Your EBITDA = 1,000,000 - 750,500 = 249,500 USD

This metric measures how profitable your hotel is with respect to its operations. It indicates your hotel's financial performance and your ability to assess day-to-day routine operations and functionalities.

It also eliminates the impact of financial and accounting aspects thus, giving you a chance to compare your YOY performance effectively.

## How to improve this KPI?

There's no sureshot way to enhance this KPI, but since this is dependent on your expenses; the lower your expenses, the higher your revenue.

So, you can implement few <u>cost saving ideas</u> at your property to improve this metric.



# Total Hotel Revenue and Total Bookings

Total Revenue = the total earnings from all sellable items + services.

[Here, services include rooms, F&B, laundry, transportation as well as additional services like gym, spa and various other events]

Whereas total bookings, as the name suggests, clearly indicate the number of bookings you received over a period of time from all your business channels.

These KPI reveals to you the potential of your hotel's earnings. Both these hotel metrics are used regularly for performance measurement.

Higher revenue against lesser bookings indicates that you are pricing high for your rooms and services.

### How to improve this KPI?

A strong <u>pricing strategy</u> can help you boost your revenue even in off-peak seasons.

Besides, you can apply various <u>hotel revenue management strategies</u> to increase your revenue from different channels and bookings.



## Revenue and Bookings by Business Sources

This KPI is one of the best to find out your MOST and LEAST performing sources.

While setting up a revenue model for your hotel, an important step is to determine the various SOURCES OF REVENUE, i.e the business sources.

Bookings and revenue can be earned through sources like website, walk-ins, various OTAs, travel agents, regional sales office, tour operators, events, tie-ups, emails, referrals and even phone bookings.

Analyze your business sources regularly to understand how they're performing overall. DO CHECK whether the cost of maintaining a hotel room is worth, against the revenue generated by each source through bookings.

Here, revenue by booking sources also includes the revenue earned from other services you offer like gym, spa, workshops, events, weddings, conferences and more.

## How to improve this KPI?

Keep in mind that, the sources which earn you revenue may not be = the sources that generate bookings for you.

Depending on revenue, decide which source is to be used in the long run.



## Average Length of Stay (ALOS)

The average length of stay (ALOS) indicates the average number of days the guests stay at your hotel. The formula is:

Length of stay (LOS) = Date of departure -  $\overline{Date}$  of arrival

Similarly,

ALOS =

Number of bookings

**Example:** You have 2 bookings with the following details:

- Booking A: 10 Nov 13 Nov 2019; LOS = 3 days
- Booking B: 16 Nov 24 Nov 2019; LOS = 8 days

The total length of stay is 11. Hence, ALOS = 
$$\frac{11}{2}$$
 = 5.5

That means, your guests stay for an average of 5 nights in a single shot.

Out of many KPIs, ALOS is an important criterion as it helps with the organisation and optimisation of occupancy within a hotel.

ONE RESERVATION for a WEEK will increase the ALOS as compared to SEVEN RESERVATIONS for ONE NIGHT. Likewise, one reservation will incur LESS labour and maintenance costs in comparison to the 7 reservations.

## How to improve this KPI?

So, work on increasing your occupied room nights by running various promotions and packages at a reasonable cost.

Implement pricing strategies, run offers for free nights or minimum night stay that benefit your ALOS the most.



## Average Rate Index (ARI)

This hotel metric basically points out the comparison between your room rates with other hotels in the market.

**Example:** Say your hotel ADR is USD 200, whereas the combined ADR is USD 150.

$$ARI = \frac{USD\ 200}{USD\ 150} = 1.33$$

This means, your room rates are approximately 33% better than your comp set's average.

So, since the ARI compares your pricing to your comp set, it is an important metric to determine the right pricing strategy for your hotel.

The better your ARI (>1), the more expensive your hotel ADR is. However, if it is less than 1 (<1), the less expensive it is (thus, lower your daily room rate). And, if equal to 1 (=1), then obviously, it is equal to the average ADR.

## How to improve this KPI?

This ARI will tremendously help you in gaining an edge over your competitors. So, set up proper room rates to improve your ARI.

Analyse your competitors regularly to know the range of prices they set on relevant occassions.

## **Average Booking Lead Time**

Average booking lead time gives you an idea about the kind of guests you get at your property; advance bookers or last-minute bookers.

This KPI represents the days between the guests' booking date and arrival date. The formula is:

Let's say your guest makes a booking on 1st Dec 2019 for 1st to 5th Jan 2020. Here, the booking lead time will be 30 days.

**Example:** You got 3 bookings with booking lead times as 2, 13, and 30 days respectively.

Average booking lead time = 
$$\frac{2+13+30}{3} = \frac{45}{3} = \frac{15 \text{ days}}{3}$$

Analyzing and working on this hotel metric gives you a competitive edge for increasing bookings and determining your pricing.

Usually, bookings at a tourist location or a vacation spot are done a few months in advance. Whereas, business travelers book a week or a few days before the arrival.

## How to improve this KPI?

Considering the booking lead time, you can form various <u>pricing strategies</u> and run promotions; for advanced bookers and even last-minute deals.



# Marketing Return On Investment (ROI)

Any return on investment (ROI) is a ratio of profitability. Similarly, this metric evaluates the gain or loss generated through the investments and marketing activities.

Example: Say, you invest USD 100 for running an ad. However, the revenue you earn from that is USD 1000. So, the

Marketing ROI = 
$$\frac{1000 - 100}{1000} = 9\%$$

[Here marketing activities include promotions, ads, email marketing and so on.]

Investment in marketing activities includes both: online (digital) and offline marketing.

Initially, make sure you start marketing activities at a lower cost. However, once you start receiving good results, you can increase your costs as per your hotel's budget.

## How to improve this KPI?

So, know which source of marketing is earning you better revenue to reap maximum benefits. Accordingly, you can lower the cost of your investment.

<u>Hotel digital marketing</u> will give you a good boost if applied for your property. DO calculate the cost, time and efforts involved against the strategies that you apply.



# Hotel Website Conversion Rate

This metric is significant for the hotels who have a hotel website. Having a hotel website is an advantage in itself, although making the most out of it is a challenge almost all hotels face.

This metric implies the number of visitors hitting your website against the number of them that convert to bookings.

Sources say, the average conversion rate for hotel websites is about 2-3%. That means, if you want to have at least 50 bookings from your website per month (in the peak season), you need to get at least 2500-3000 visitors that month on your website.

Approximately 97% of visitors leave without making a reservation from a hotel's website. That's why, it is recommended that you make your hotel website conversion-friendly.

Additionally, you should also analyse the number of visitors on your website, which will give you an idea on your website's reach.

## How to improve this KPI?

Make your website reachable i.e perform good SEO, add new content regularly and keep it upto-date. Here's a complete guide on <u>SEO for hotels</u>.

Moreover, guests researching your property online, or on your website are most likely to convert into a unique booking if the hotel website is impressive.

Don't have one? Get it designed here.



## Average Revenue Per Guest

This KPI signifies the revenue generated by each guest staying or visiting your hotel.

[Where revenue includes room revenue, revenue from different services or activities at your hotel including guests from all booking channels.]

To calculate: Average revenue per guest (ARPG) = Total Revenue

Total Number of Guests

In addition to this, you can consider another KPI which is quite similar to this ARPG, i.e average revenue per account (ARPA).

[Here, accounts would mean all the travel agents and companies you've tied up with.]

ARPG is completely dependent on the total revenue you earn. Whereas, ARPA gives you quite an idea on how your tied up accounts are performing.

Analyze whether the commission you are parting with is worth, against the revenue earned from the guests they bring in.

## How to improve this KPI?

To improve this KPI, find ways and apply strategies to upsell your additional services to your guests. The more you engage with your guests, the more they will indulge in your hotel facilities; thereby earning you higher revenue.

Here, it becomes important for you to know which account has given you how many bookings.



## Inquiry vs Bookings

This hotel KPI is for you if you have a hotel website or a social media profile. Inquiry vs bookings will help you determine the results against the efforts you're investing in your channels.

However, the ratio you should focus on is, how many inquiries actually turn into bookings.

To calculate: Ratio = No. of inquiries
No. of bookings

[Here, inquiries include those from website, social media channels, email, phone and even walk-ins.]

This KPI measures your capability to convert an inquiry into a booking and eventually into a long-term guest.

This KPI for your hotel will give you a fair idea of their performance if, you have a sales team or someone at your reservation center who handles such inquiries.

Hand in hand, you will know the reasons for an inquiry not converting to booking and can work towards converting all of them with time.

## How to improve this KPI?

Do regular posting, maintain your website quality as well as perform hotel website SEO to enhance your bookings.

In addition, if you have a website; you can adopt a website chatbot to attend the visitor inquiries. This will improve your conversion rate as well as reduce your efforts in handling those inquiries.



## Cost per Bookings

This hotel KPI is just the opposite of ARPG. While ARPG calculates the revenue you earned against each guest, this metric measures the cost you incurred for each booking made at your property.

Calculate the cost involved in your booking sources viz. phone bill, OTA commissions, website development and maintenance cost. Measure those against the bookings received from these sources.

To calculate: Cost per booking = 
$$\frac{\text{Cost of the source}}{\text{No. of bookings from the source}}$$

Example: Say your phone bill for the last month was USD 25 and you received 5 bookings through phone calls. Here your,

Cost per bookings from the phone will be = 
$$\frac{25}{5}$$
 = 5 USD

This metric is inversely proportional to the number of bookings you receive. That means, the higher your bookings, the lower your cost and vice versa.

## How to improve this KPI?

Start with the sources which are providing you maximum bookings. Optimize the cost by applying effective strategies to get more bookings from those sources.

Keep the cost as minimal as possible against the maximum number of bookings. Also, optimize your booking sources in such a way that your cost is less and the bookings are more.



## **Cancellation Rate**

It is always recommended to devise a proper and fool-proof cancellation policy before rolling out your availability on various channels.

The KPI measures how often your guests cancel their bookings in a particular time period out of the total bookings you received.

**Example:** Let's say that out of 10 bookings this week, 3 of them got cancelled. Here,

Cancellation rate = 
$$\frac{3 * 100}{10} = 30\%$$

Collect and analyze the reasons for cancellation from your guests. Also, find when do you get those cancellations. Is it done just before their arrival, or days before that, or is it from the third-party's end, or is it because of overbooking?

This metric will help you improvise on your policies and also get more confirmed bookings.

## How to improve this KPI?

Be careful while forming your cancellation policies. Try not to be over flexible as well as ultra strict with it.

DO apply tactics to <u>reduce your last-minute cancellations</u>. This will maintain the bookings you receive and form better strategies to fill your rooms.

## Conclusion

That's it!

Here, the nook and corner of your Hotel KPIs are sorted.

Constant data analysis is one of the core responsibilities for any hotelier.

#### Additionally, here's what you should keep in mind:

- Be observant and consistent about the strategies you apply.
- Size and type of property do not matter when it comes to making it a success.
- Each KPI will help you to increase your revenue, sales and profits significantly.
- Start observing these KPIs to significantly improve your hotel's performance.

#### **OTA Analysis**

#### Your OTA performance is average.

#### OTAS

Currently, you are listed on 3 OTAs, if you limit yourself to just a few OTAs, you'll lose several booking opportunities and have fixed online visibility.

Channel	Total Rooms	Star	Room Type	Cancellation Policy	Check-in & Check-out Time
Bosking.com	Not Available	2		FREE Cancelistion	Check-in TI AM, Check-out 10 AM
MakeMyTrip	Not Available	2	2	FREE Cancellation	Check-in: 10 AM, Check-out: 930 AM
Colbino	37.	2	3.	PREE Cancellation	Check-in: 1130 AM, Check-out: 10 AM

#### Suggestion:

- I. Keep the same 'Total Rooms' on all OfAs
- 2. Keep the same 'Star Rating' on all the OTAs.
- 3. Keep the same Toom Type across all the OTAs.
- 4. Keep the same 'Cancellation Policy' on all the OfAs.
- 5. Keep the same 'Check-in & Check-out Time' on all the OTAs.

#### Hotel photos

You've not many photos on the OTAs. Cood photos of your hotel will help your guests in exploring your hatel and decide faster to book with you.











Booking.com MakehtyTrip

Co.p.50

Cleartrio.

#### Suggestion:

- 1. Consider adding more photos on the OTAs, 25+ photos is the ideal number to keep on the all OTAs.
- 2. You should add minimum 4 photos per room. And the photos should be of high quality.

Why should you do this Quality pictures and that too of higher number, on the OTAs will increase your Quality Score on the OTAs. This will improve your rankings and give you more bookings.





Before you begin with this, know how your hotel business is currently performing in the market.

> Get FREE 45-point Performance Report

## Ву



Simplified Operations. Maximized Revenue.

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