News | HOSPITALITY

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Expanding Benchmarking Horizons for Growth

To remain viable in a recovering economy, companies operating in the hospitality sector are continually seeking ways to improve profitability, preserve cash, and create growth opportunities by generating capital from their bottom line. To do so, many have begun to compare—or benchmark—their operations against those of their competitors in order to take a comparative view of operations and finances. Examining such key metrics will allow management to better measure and analyze their operational results and financial goals.

Casting a Wider Net

Benchmarking has come a long way since stronger economic times, when it was widely thought of as a tool used only by unprofitable companies. In more recent years, however, benchmarking has become almost a necessity for survival. The restaurant industry is today highly fragmented, with the 50 largest companies holding just 20 percent of the market. It is also an extremely competitive sector in which demographics, consumer tastes, and personal income drive demand. Financial benchmarking—an examination of bottom line costs from labor to operations—has helped many industry players find leaner methods of operation. The industry is labor intensive as well as being continually faced with the volatility of commodity costs. Substantive financial analysis of performance metrics has become paramount to achieving success in the current economic conditions.

There is tremendous pressure to compete in a marketplace often saturated with viable competition in order to deliver quality and value at a specific price. The hospitality sector, in particular, has had to continually adapt to changing consumer trends and tastes. As reported in a study by the National Restaurant Association, a significant portion of consumers (over half of those surveyed) are trying to eat healthier than they did just two years ago. This has a profound impact on restaurant operators who must be able to adapt in a manner that will meet consumer desires while at the same time making fiscally prudent business decisions. To ensure restaurants are well-positioned against their competition in regard to consumer trends and tastes it is becoming more prevalent for the implementation of substantive analysis of metrics in order to ensure sustainability of operations and the controlling of food costs. Businesses in this sector need to continually evaluate food costs and the fluctuations of the various commodities it purchases, in order to ensure the proper balance of consumer expectations as well as maintaining the desired profitability and margins. Restaurant operators continually need to search for solutions that will enable them to successfully compete.

The management of payroll costs is another key metric within the hospitality industry. Operational results can often hinge on ensuring the proper management of the costs associated with staffing. The case to use benchmarking analysis to monitor payroll has become even more of a cogent argument of late for the restaurant industry, in particular, due to the pending healthcare legislation and the impact that it may have on the hospitality industry. Companies that have a clear analysis of their payroll costs will be better positioned to monitor and therefore adapt to any changes in benefits or wages. Through the use of performance measurements day-to-day operations can be quantified to ensure restaurants are maximizing their profitability with regard to labor costs.

When expanding benchmarking parameters, however, a business must be careful to interpret this data accurately and in the right context, as its source may be companies whose business models may not be easily comparable. Those performing these studies must be cognizant of how the information is derived and have an understanding of the businesses in the sample population.

Even within the same sector, restaurants vary in business models and approach (i.e., fine dining versus QSR), which may lead to significant differences in gross margins, the number of turns expected in a service, inventory composition, and various other key metrics.

As such, pure financial data alone might not provide the insight needed to enact new business plans. However, benchmarking encourages a company to be open to new ideas and processes, which in turn help facilitate discussions with management and stockholders. It can be the impetus to get management talking and investigating whether their business is spending its resources effectively and efficiently.

Even companies who benchmark diligently and find that they are in line with their own industry can benefit from bringing in an accounting and consulting firm with expertise across many different industries. With the resources to draw solutions from across many different industries, these firms have the experience to provide business insight that comparisons within your industry cannot. ■

Sample Areas to Benchmark

Gross Profit

A simple financial caption such as gross profit is directly related to the supply chain, from how you purchase your supplies, market your restaurant to the public, and sell meals and beverages to customers. This expands to all areas of operations.

Fluctuating commodity costs, such as beef prices and rising labor costs, severely impact the restaurant industry and are tightening the profit margins of many companies. As individual restaurants often find it difficult to pass along increasing costs to the customers, they must continue to focus on the cost of goods component within gross profit. Restaurants of various size and compositions have engaged firms to assist in executing a more efficient supply chain management solution. These firms will look to replace some of the company's outdated, inefficient purchasing functions with models that optimize the flow of product, information, and processes.

Insurance

We have seen companies bid farewell to their long-time insurance brokers and engage consultants who do much more than look for the right insurance at a competitive price. These consultants assess the company's current risk management program, make recommendations to improve processes, and ultimately oversee the entire commercial insurance program, including pre-renewal strategy, negotiations, decision and implementation.

Benefits

Other companies are looking for ways to increase employee morale after virtually no salary increases, bonuses, and, many times, significant layoffs over the last few years. Companies have been engaging benefit consultants to implement the right benefit programs to help streamline costs and improve employee peace of mind, motivation, and job satisfaction. Companies also can use benchmarking to ensure that the headcount employed at a restaurant location is feasible and appropriate based on the construct of the financial goals.

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