

Spiralling Costs Put Pressure on Profit for UK Hotels

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UK Chain Hotels Market Review - July 2008

Substantial rises in daily running costs are reducing the profitability of the majority of UK chain hotels, according to a HotStats survey from TRI Hospitality Consulting.

During the seven months to July 2008 the average profit margin - expressed as income before fixed charges (IBFC) - reported by a sample of 401 provincial chain hotels was 32.1 per cent of total revenue, a 1 percentage point drop compared to the same period a year earlier.

The reduced profit margin was the result of payroll and other costs rising, while total revenue headed in the opposite direction, dipping by -0.2 per cent to £98.99 per available room. Daily payroll per available room increased by 1.1 per cent to £31.73. Other costs before fixed charges rose by 1.5 per cent to £35.50 per available room, leaving behind £31.76, representing a 3.1 per cent year-on-year decrease in IBFC PAR.

'In these challenging times, relying on RevPAR alone will give operators, investors and developers a partial and distorted picture of trading. What matters most to any business, after cash, is profit. Only by looking at the movement of total revenue and costs can we gain a truly accurate picture,' said Jonathan Langston, managing director, TRI Hospitality Consulting.

The main cost pressures are coming from food and utilities. In July, annual food inflation reached a record 13.7 per cent, and the price of electricity, gas and other fuels rose by 16.1 per cent according to the Consumer Prices Index.

The food and beverage director of a national chain told us he is putting cheaper cuts of meat such as beef shin onto menus. 'It's really like going back to the 1950s,' he commented. In a further effort to maintain margins, another hotel chain is trimming the size of its steaks, rather than increasing the price.

'Hoteliers have to perform a balancing act between cost-cutting measures and maintaining the appeal of their food offer. We understand that room service and bar snacks are selling better than three-course meals,' said Langston. Overall F&B sales are down, however. In the seven months to July 2008 average food and beverage revenue at provincial hotels dropped 1.8 per cent year-on-year to £38.25 per available room.

In a review of the UK's largest cities, profit margins fell in all locations except London and Birmingham. In Liverpool, the Capital of Culture programme of events started to pick up momentum from April 2008 onwards. The Gustav Klimt exhibition, the opening of Liverpool ONE shopping centre, and events at the BT Advisor of the Year Convention Centre and Echo Arena are all driving demand into the city, with our hotel sample reporting a 4.1 percentage point increase in average occupancy to 77.4 per cent. Increased demand fuelled an impressive 9.3 per cent rise in total revenue to a daily figure of £106.26 per available room. And yet rising costs even succeeded in taking the gloss off this strong performance.

In Liverpool, daily payroll costs increased by 5.1 per cent to £30.76 per available room, other costs before fixed charges leapt by 14.4 per cent to £38.49 per available room, leaving behind £37.01 PAR in profit.

'Liverpool is reporting impressive revenue growth thanks to a number of long-term regeneration projects coming to fruition. If it wasn't for the sharp spikes in costs, profit margins would have undoubtedly increased,' said Langston.

Scotland appears to have suffered the brunt of declining consumer confidence and fewer short-break visitors, with both Glasgow and Edinburgh reporting revenue down on last year. According to the Scottish Visitor Attraction Barometer, the total number of visits to Scottish tourist attractions dropped by 2.3 per cent for the January to May 2008 period, but the fall was greater (-7 per cent) for tourist attractions in the Glasgow area. This is supported by HotStats data from our Glasgow sample, which posted a 4.1 percentage point drop in average occupancy.

The UK Chain Hotels sample is composed of 510 full-service branded hotels representing more than 90,000 bedrooms. These hotels operate primarily in the three and four-star sectors.

[Full release including charts.](#)

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