Setting Key Performance Indicators – Business Planning For NI Tourism Businesses Webinar

Feargal McCormack
Managing Director
PKF-FPM Accountants (pkffpm.com)

TED | Tourism Enterprise Development Programme

tourism northernireland

Northern Ireland Embrace a Giant Spirit

Presentation Context

- Webinar is being delivered as part of Tourism NI's new Tourism Enterprise Development (TED) Programme. Slides will be an Aide Memoire
- Designed to help businesses operating within the NI tourism industry survive and recover from the unprecedented economic uncertainty caused by Coivd-19 (not forgetting the potential implications of Brexit).
- Will endeavour to offer a comprehensive overview of how business planning and KPIs complement each other to create winning business success teams; sharing the PKF-FPM experience.
- Business planning setting the vision and direction of the business incorporating Key Performance Indicators (KPIs) i.e. performance targets to facilitate monitoring of performance and recognising problems is pivotal to successful business in today's ever changing business landscape.
- Acknowledged that one to one mentoring may be available to enhance knowledge and understanding of specific elements of Business Planning and KPIs.

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Webinar Outputs

Understanding of:

- The link between KPIs and Business Planning.
- Business Planning.
- KPIs and their relevance to informed decisions and improving business profitability, value and sustainability.
- Generic Financial KPIs and KPIs specific to Tourism Sector.
- Benchmarking.
- Appreciation of the importance of relevant KPIs for measuring and monitoring performance.

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Covid-19 & Business Planning

- The evolving Coronavirus pandemic, means that we are currently living and working in unprecedented and extraordinary times.
- Covid-19 will end, but the reality from a business perspective is that we must plan for living with and post Covid-19.
- As highlighted in earlier webinars, an economic crises is a good time to take a holistic look at our business to **Reflect** clearer, **Respond** smarter and **Rebound** faster in the context of applying tomorrow's logic to today's turbulence.
- There is no doubt that things will be different living with a post Covid-19. Some behaviours and attitudes will have changed and perhaps some of these will create a better and more efficient business environment.
- We need to reflect on what we did before, that we could do better, and what we didn't do before, that we should go for now, in terms of products and services, pricing, staff mix, processes and policies.
- But, across all of this, if a business does not have ethics, governance and trust embedded in its cultures going forward, with strong financial planning, in my view it is destined to failure.

Covid-19 & Fear

F.E.A.R. has three possible meanings:

- **F**alse **E**xpectations **A**ppearing **R**eal
- **F**orget **E**verything **A**nd **R**un
- **F**ace **E**verything **A**nd **R**ise

THE CHOICE IS OURS

Covid-19 & Business Planning Cont.

- In order to manage the inherent risks and fear that Covid-19 presents, thankfully most businesses in the NI tourism sector, have now moved past the shock of the pandemic to active leadership and control measures, and the most important leadership control, we would suggest is how we behave.

- Current NI Executive Covid-19 restrictions and Public Health guidelines for the NI Tourism Sector are acknowledged as a significant challenge.

- Now, more than ever, we need empathetic and compassionate leadership, which engages, listens, connects with others and displays flexibility, understanding and sensitivity to get people through the crisis and lead them through the current uncertainty to a new reality.

- Right now, I would suggest that it is imperative that leaders focus on business planning (incorporating KPIs) and being objective, transparent, effective and authentic and reflect on the Harvard Business Review which reported:

"that crisis are more often over managed and under-led".

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Effectiveness & Efficiency

- Business thrives when both effectiveness and efficiency are aligned and complement each other.

- By **EFFECTIVENESS**, we mean doing the right things (i.e. strategic working on the business). Designing and utilising effective KPIs reflect working on the business.

- By **EFFICIENCY**, we mean doing things right (i.e. operational and tactics, working in the business).

Business Planning & KPIs

- Business planning involves agreeing the vision and future direction for the organisation and preparing a business plan, to set out what your business is about and its targets, who controls its, its key markets, how it differentiates itself from its competitors (i.e. the WHY) and how its core operating plans will be implemented to achieve planned objectives and targets.
- Key Performance Indictors (KPIs) help you to define and measure progress towards business goals. KPIs are quantifiable measurements of the improvement in performing an activity that is critical to the success of your business. Through benchmarking KPIs, enable you to compare your business performance against your budget or business plan, or against others in your sector. In this regard, KPIs information is available from Tourism NI and the annual ASM NI Hotel Industry Review and Prospects Report.
- KPIs should complement your overall business targets and relate to its core activities. As a result, this will differ for individual businesses operating within the NI tourism sector, depending on the nature of their business.
- However, for KPIs to be effective, there is a requirement to implement sound business planning in the first instance, therefore before addressing KPIs in detail, we will first provide an overview of the business planning process.

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Business Planning

The future belongs to those who plan for it:

"If you don't have a destination you will never get there"

Remember ……..

We can analyse the past, but we must design the future. Design means putting things together to deliver a value added solution to meet or exceed client/customer expectations and thus deliver market differentiation.

Pause & Question

- At this point, I would like you to pause and ask yourself a question, **WHY** are you working in your business?

- What is the **purpose** of your business.

- For example, from a PKF-FPM perspective, earning money and generating profits has never been the sole priority. Our passion/purpose is to care and help others achieve their life's dreams, and through this earn the trust of clients and prospective clients, to help them deliver results and positive change in terms of impact and solutions.

- We endeavour to work together with a common and united goal to ensure we have fun in making PKF-FPM the best firm it can be.

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My Role – Engaging Leadership

- I see my role as Managing Director of PKF-FPM:

"To lead, mobilise and energise our most vital resources - PEOPLE"

- To foster trust and a Business Development Culture that inspires confidence and seeks out opportunities and supports greatness among team members to ensure everyone is rowing in the same direction for the greater good.
- Ensure diversity and inclusion are embedded within the business culture.
- To give strategic direction to implement our agreed agile strategy and collective plan to reassure, inspire and motivate our team to deliver positive results and sustainable growth.
- To encourage Team PKF-FPM, to be resilient, to listen well, to embrace lateral thinking, to deliver change and invest heavily in cutting edge technology and digitalisation.
- To promote health & wellbeing, along with fun in a welcoming team and office environment.

SUGGEST YOU REFLECT ON YOUR ROLE

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“**OUR** PRESENT
CIRCUMSTANCES
DON’T DETERMINE
WHERE WE CAN GO;

THEY MERELY DETERMINE
WHERE WE
START”

Planning


WHERE ARE WE NOW?
WHERE DO WE WANT TO BE?
HOW ARE WE GOING TO GET THERE?

The Steps in Developing a Business Strategy

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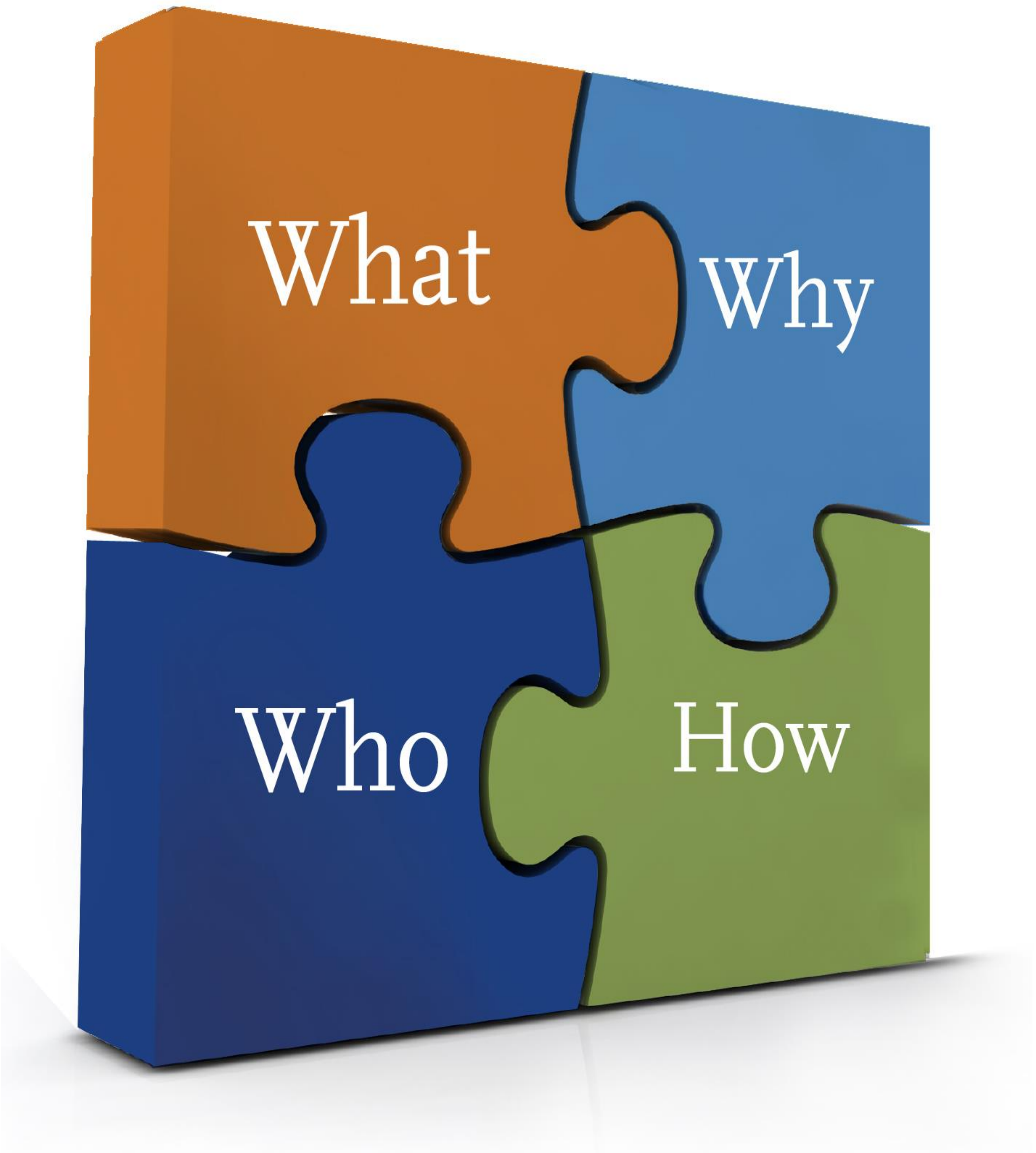
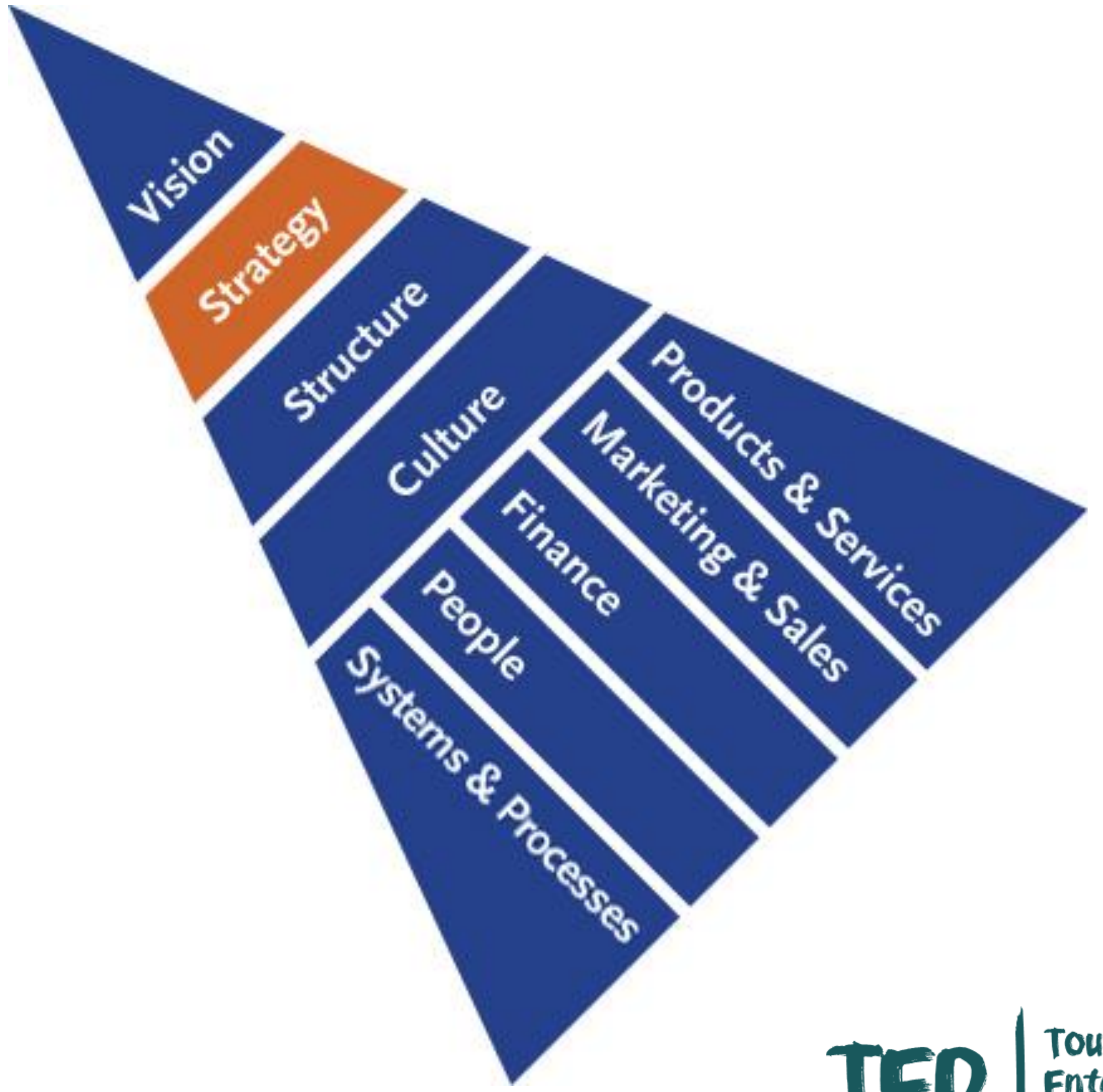
Business Model



- The success of a business is dependent on its business model
- Good business models are based on a Valuable Formula



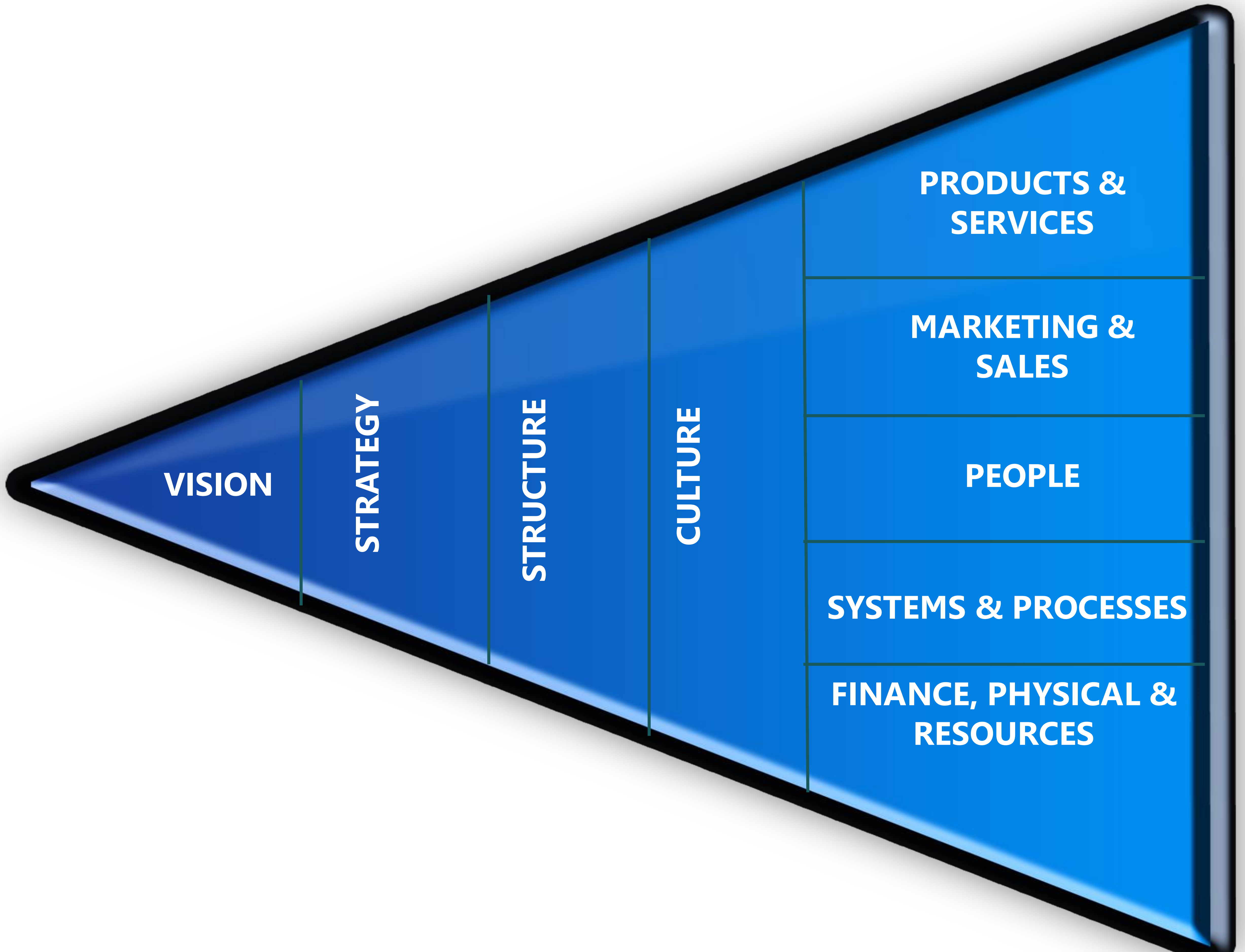
The most important thing is Purpose – that is, the WHY?

WHY?

- Customers will not purchase our tourism products / services because they understand what we do, and how we do it, but rather they will buy our products / services on the basis of the results/benefits they perceive our tourism products / services will bring them. When their **WHY** and our **WHY** are the same, we have a sale.

A Business Needs Direction

- A business needs direction, structure and processes. To facilitate Business Planning, we have developed a strategic management holistic framework for PKF-FPM, which we call the PKF-FPM Rocket.



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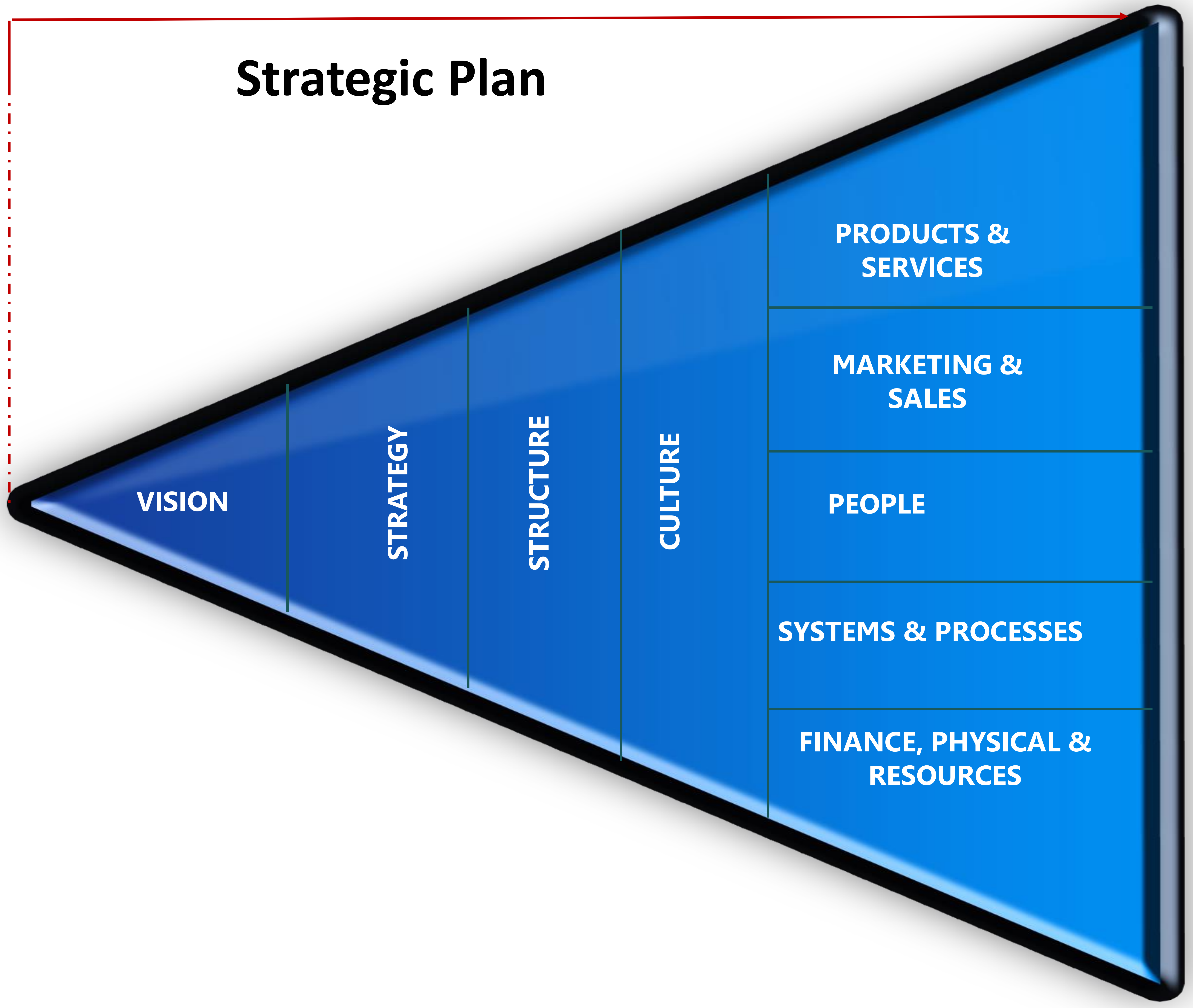
Strategic Plan Determines the Vision



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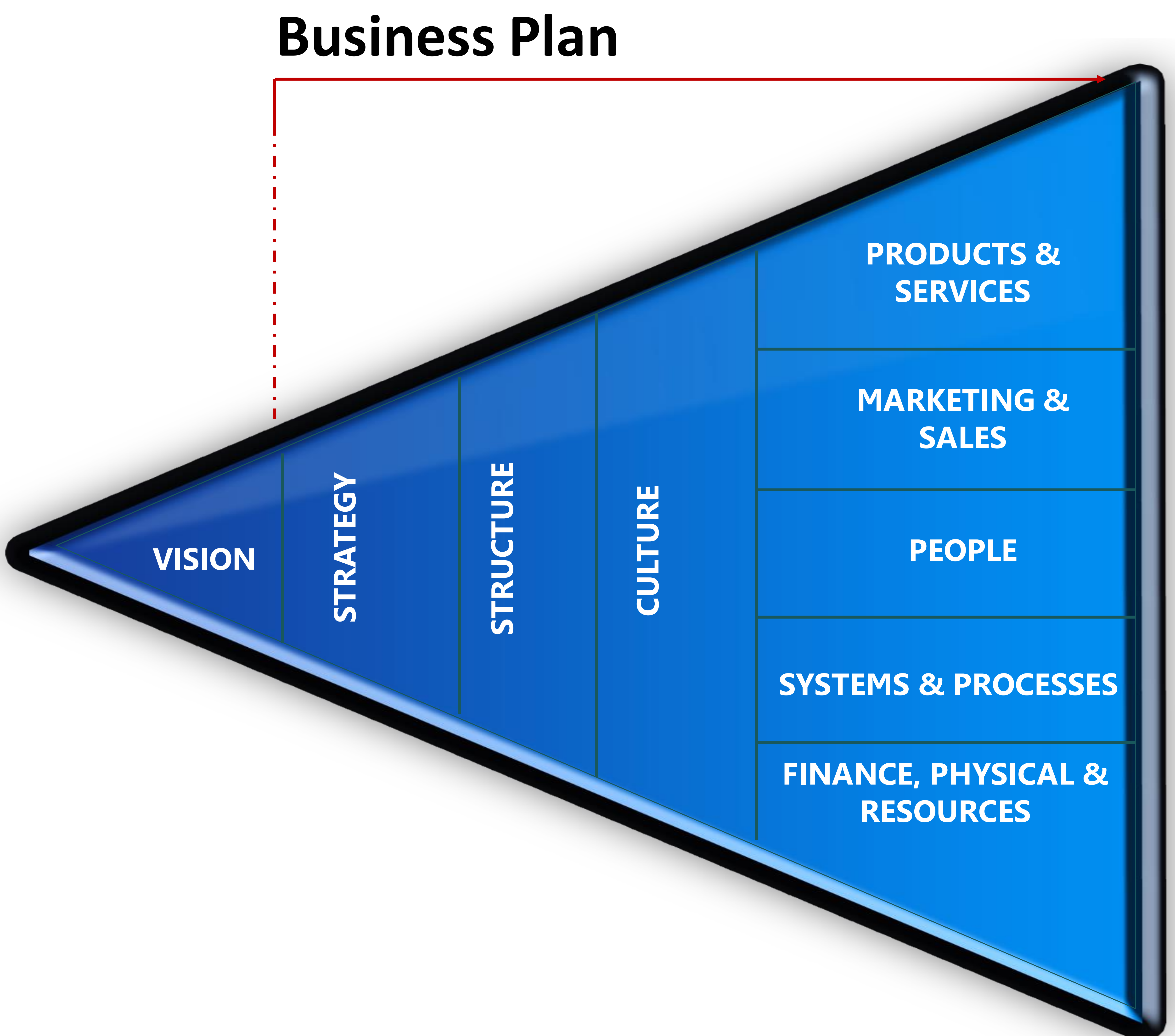
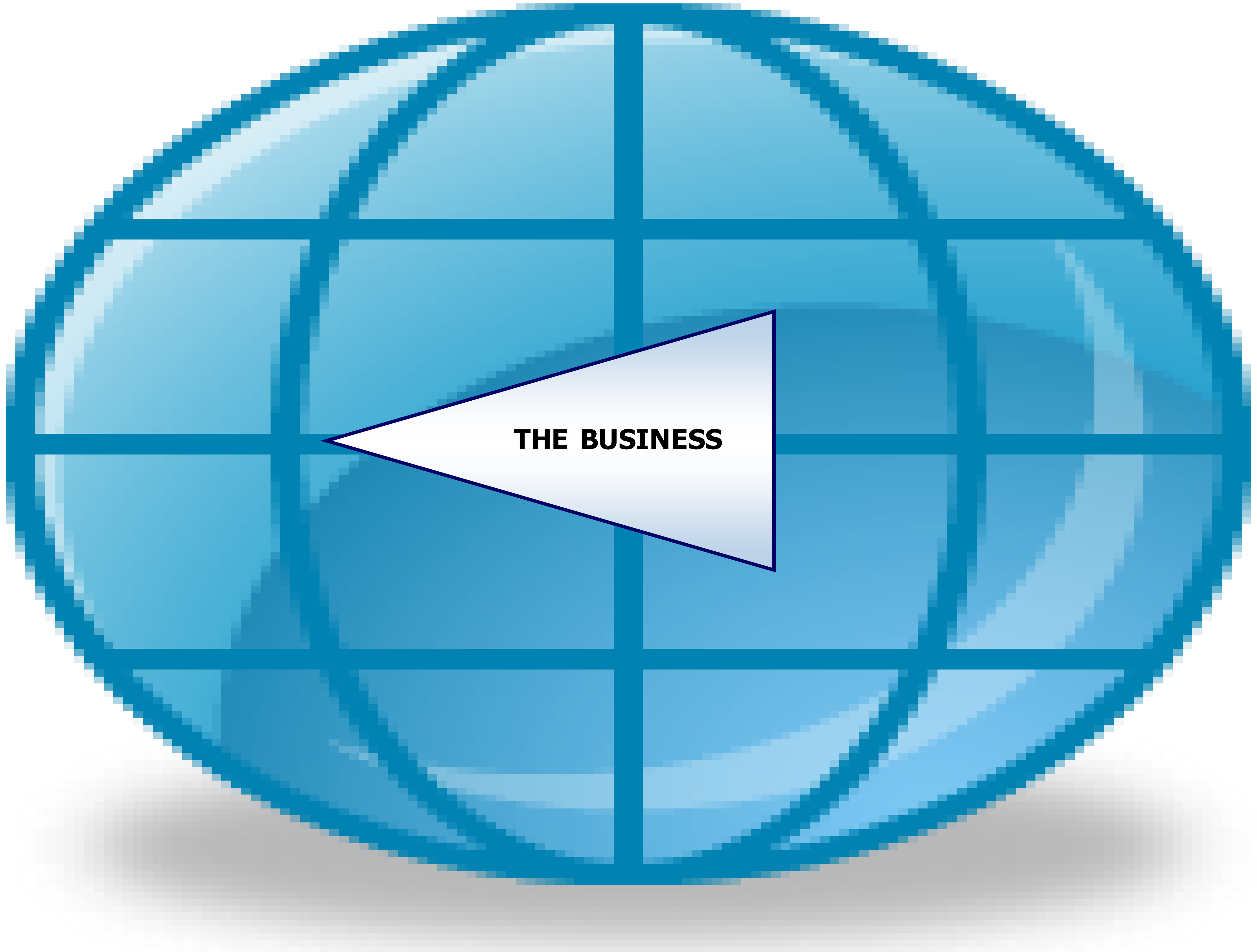
Business Plan Accepts the Vision as it is and Revisits the Best Way to Achieve it



The Business does not operate in Isolation



Every business is subject to pressures and influences
from the external environment. These are ignored at your peril.
PESTEL Analysis is helpful in this regard.

Sharing – PKF-FPM Approach to Business Planning

- We adapt in broad terms the Entrepreneurial Operating System (EOS) – www.eosworldwide.com, Traction – get a grip on your business.

- One Pager: Vision/Agile Strategy & Business Plan 2020/21.

- Rocks, 90 Day Clock.

PKF-FPM Vision Traction Organiser

PKF-FPM VISION / TRACTION ORGANISER (AGILE STRATEGY) 2020/21

VALUE PROPOSITION	
CORE VALUES	• Small set of vital and timeless guiding principles. • Define our culture & DNA. • Determine the way we do business and select our people.
CORE FOCUS	• How do we differentiate PKF-FPM from our competitors? • The WHY?
MARKETING STRATEGY	**Target Markets** **Three Uniques:** **Proven Process:** The PKF-FPM Quality Customer Focused Service Profit Chain. **Guarantees:** (1) If you leave within 24 months, we refund 25% of all recurring fees charged. (2) If you receive an un-agreed invoice, it gets credited and the work is done for free.

1 YEAR PLAN

Y/E 31 March 2021: Revenue £XXXX PBT £XXXX

2, 3 & 5 YEAR PICTURE

Y/E 31 March	Annual Turnover £	Annual PBT £
2022		
2023		
2025		

MEASURABLES

Annual KPIs for Turnover, Business Development, Leveraging Technology, Recoverability, Staff Utilisation, Profitability, liquidity/cashflow employee and client advocacy.

-
-
-
-

KPI's for niche projects and service area functions.

-
-
-
-

WHAT DOES IT LOOK LIKE

Corporate Citizen – active and leading force in our Profession, the Business Community and the Civic Community.

Minimum **1 strategic strike** every year – in current year, create new revenue stream and learn to do business in different and more effective ways.

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Humility Culture

- Humility allows us to ask a simple question: how can we do things better?
- Humility begins at the level of inter-personal communications, enabling an interrogative, highly facilitated learning environment, in which no one has all the answers.
- Each individual is invited to contribute solutions to the challenges being posed. We believe this is a key component of building sustainable competitive advantage, through cultural cohesion.
- An interwoven culture and DNA of “HUMILITY” leads to innovation, increased self knowledge and greater character – thus the emphasis on OFI’s (Opportunities for Improvement) and Key Performance Indicators.
- My life has been a journey of learning and leadership experiences.

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Perseverance & Resilience

We're not perfect. Our commitment and perseverance will not be perfect. We're going to have setbacks and stumbles in pursuing any goal/target we set. The important thing is, not that we have these setbacks, but how we react to them.

Perseverance and resilience doesn't mean perfection. It's not often constant, unwavering adherence to a commitment. Instead, it is usually a series of quick course corrections when you get off track. KPIs have a key role to play.

Running a business is like navigating a ship, it may go slightly off course, but with small corrective actions we can redirect the business back on its desired direction and forward journey.

Differentiation & Taking Risks

- We encourage our people to endeavour to be different and unique – and to think outside the box – this entrepreneurial spirit is consistent with our firm’s clients, many of who are business owners with unique products and services.
- Intelligent failure, must be acknowledged in a mature society.
- Many people are afraid to fail, but we discourage this culture, because we think the person who has never failed, has never got anywhere.
- It’s true, that we don’t like to lose, but we are not afraid to lose, there’s a difference. We don’t like it, but hopefully we have won more than we have lost.
- We have definitely learnt from our mistakes.

Making Everything Benefit Driven

"Winning Teams do the ordinary things with extraordinary consistency, commitment, passion and focus".

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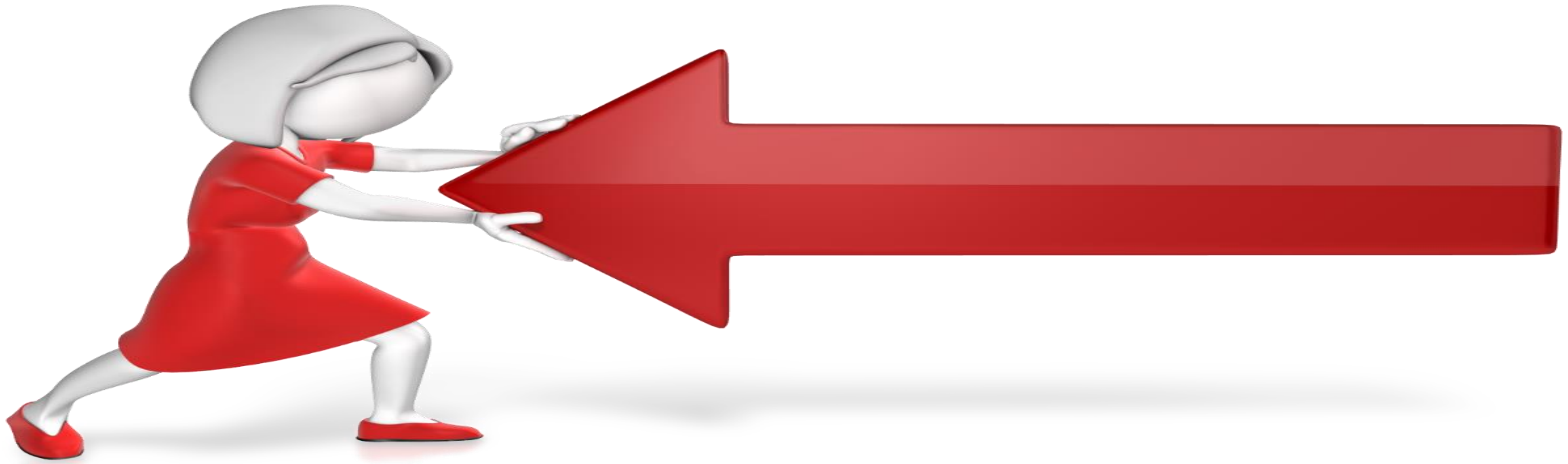
Managing Change

- Change is difficult to implement as people by their nature, are often resistant to change and will impede new ways of doing things.
- Innovate or evaporate.
- To succeed the underlying culture of the business / organisation must be responsive to change.
- Culture is the glue that joins everything together, and is central to behaviour and is a key determinant in the performance of an organisation, and its ability to achieve its objectives.



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Change Management – Interwoven Agility

- You can’t do today’s jobs, with yesterday’s methods or mindset.

Remember Charles Darwin stated:

“It is not the strongest of the species that survives, nor the most intelligent, it is the one that is most adaptable to change”.

A Game of Inches

Business like life is just a game of inches. In either game, life or business, the margin for error is so small, and thus a united team, with a common vision and purpose is required, to deliver sustainable superior performance: “the power of one” - working Together Everybody Achieves More (TEAM).

Thus within TEAM PKF-FPM, through KPIs we seek that inch of improvement. Both as individuals and as a collective team. In order to deliver marginal gains, recognising that 100 things done 1% better will deliver cumulative sustainable competitive advantage.

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Key Performance Indicators – What Are They?

- The better your understand your business, the easier it will be to increase profits, create better cashflow and ultimately improve the value and sustainability of your business.
- One of the tools to do just that, is developing some Key Performance Indicators (KPIs).
- KPIs are the key drivers in a business. There should be only 3 to 5 drivers that are fundamental to business success. However, these are likely to be augmented by a range of KPIs at a departmental or project level.
- Once they have been properly identified, we need to measure them property and apply strategies and tactics to improve them, from where they are now, to where they need to be.
- KPIs can be both financial and non-financial.

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Key Performance Indicator (KPI) Definition

- A Key Performance Indicator is a measurable value that demonstrates how effectively a business/organisation is, in achieving its key objectives.

- Organisations use KPIs at multiple levels to evaluate their success at reaching targets.

- High level KPIs may focus on the overall performance of the business/organisation, while low level KPIs may focus on processes in departments such as sales, marketing, HR, support and others.

- KPIs may also be specific to projects.

KPI Development

- KPIs allow businesses to monitor and measure their success . . . . but as already highlighted, KPIs don't always have to be about money. For example, measuring productivity, asset utilisation (e.g. room occupancy), customer retention, campaign response, complaints, effectiveness of website and social media platforms, customer satisfaction are just a few ways you can improve the performance, culture and customer experience of your business.
- Its about understanding the key drivers within your business and sharing these with your team, so that everyone understands and is accountable for the results.
- Achieving and celebrating KPI targets, builds a happier and more profitable work environment.

The Evolvement of KPIs

- There are many parallels between sport and business. If you are a sports fan as I am, and you are as old as I am, you may remember the introduction of Match of the Day in the 1960's or the earlier coverage of the British Open Golf on TV, that they only had a few key indicators to track a team or an individual's performance, for example the score at the end of each quarter or after 9 holes.
- Today you can not watch a football game or golf tournament on TV without being inundated with statistics about the individual players or the team tactics. One thing is for sure, the player or team with the best overall statistics wins the tournament or game.
- Our business is much like that professional football team or professional golfer, that is playing hard to earn their pay. You can be sure, that they are tracking performance along with the media.
- Thus in today's business environment, every business and employee has KPIs. In the long run, the business that wins the game, is the one that tracks their KPIs and improves their KPIs on a regular basis.
- Many of today's IT management systems will assist in monitoring KPIs on a monthly, weekly or daily basis. Utilisation of Dashboards can be particularly helpful.

What Makes a KPI Effective

- A KPI is only as valuable as the action it inspires. Too often, businesses blindly adapt industry/sector recognised KPIs and then wonder why that KPI doesn't reflect their own business and fails to affect any positive change.
- One of the most important, but often overlooked aspects of KPIs is that they are a form of communication. Succinct, clear and relevant information is much more likely to be absorbed and acted upon.
- Thus in terms of developing a strategy for formulating KPIs, we would suggest you start with the basics and understand what your business objectives are, and how you plan on achieving them, and who can act on this information. Writing a clear objective for your KPI is one of the most important – if not **THE** most important part of developing KPIs.
- This should be an iterative process that involves feedback from management and employees and includes reference to available sector KPIs. As this fact finding mission unfolds, you will gain a better understanding of which business processes need to be measured with a KPI dashboard and with whom the information should be shared.

S.M.A.R.T. KPIs

- One way to evaluate the relevant of a performance indicator is to use the **S.M.A.R.T.** criteria, where the letters of the word **S.M.A.R.T.** are typically taken to stand for: **S**pecific, **M**easurable, **A**ttainable, **R**elevant and **T**ime-bound. In other words:

  - Is your objective **Specific**?
  - Can you **Measure** progress towards the goal?
  - Is the goal relatively **Attainable**?
  - How **Relevant** is the goal to your organisation?
  - What is the **Time-frame** for achieving the goal?

Being even **Smarter** about your KPIs

- The SMART criteria can also be expanded to be SMARTER with the addition of **Evaluate** and **Re-evaluate**.

- These two steps are extremely important, as they ensure you continually assess you KPIs and their relevance to your business.

- For example, if you’ve exceeded your revenue target for the current month or year, you should determine if that’s because you set your goal too low, or if that’s attributable to some other factor.

Overview of KPIs for Business Operating in the NI Tourism Sector

- There is a very wide range of businesses operating in the NI tourism sector in terms of size, activity and sector niche. Although there are generic overall financial KPIs that can be applied to most businesses, the niche KPIs relevant to business operations say in the hotel, restaurant, Bed & Breakfast, tour operators and activity providers may vary greatly and within each sector further specialisation will also be required to reflect size and nature of business activity/strategy.

- There must be a way to define and measure the KPI and also to match the specific KPI measure to the business, acknowledging the difference between financial and non-financial KPIs.

Overview of KPIs for Business Operating in the NI Tourism Sector (Cont)

A few examples highlight these differences:

- For example a business focused on increasing its sales needs to consider how this will be measured (e.g. units sold or by value of sales). You may also need to set a target of increasing sales by say 10% or by sales or service type, where you have a range of products and services, this could be influenced by the individual Gross Margin % for each product or service type.
- You could have a high proportion of part-time staff and to improve labour efficiency you may wish to measure staff turnover (to avoid recruitment and training costs and improve quality of product/service). In the same regard you may also consider measuring staff absenteeism, results of staff surveys, including staff pulse survey.
- Customer satisfaction – for example having more customers won’t necessarily be good for your business, if service/quality levels fall and few of them are satisfied with the services you are providing, by sharing their experiences with friends, family members, or even strangers through reviews in TripAdvisor.

Overview of KPIs for Business Operation in the NI Tourism Sector (Cont)

- A 5* Hotel may have different priorities to a 3* Hotel and common KPIs norms could differ for revenue for available rooms (RevPAR), average occupancy rate, gross operating profit per available room (GOPPAR), marketing cost per booking (MCPB).
- The number of covers may be an appropriate KPI for a city centre pizza restaurant, because it will need to serve its customers promptly and efficiently to meets its overheads and make an acceptable level of profit – because the emphasis will be volume and average spend per customer may not be a major variable.
- On the other hand contrast this with an upmarket restaurant located in the suburbs, which may decide that customer satisfaction will bring in the repeat and high-spending customers, where customer experience is very important. In this case, a suitable KPI might be the level of average spend, with the objective being to increase the average spend per customer/table, as normally there may be only one cover per table per night.
- A KPI for a Tour Operator or an activity provider in the tourism sector could be the effectiveness of vouchers or discount offers or indeed cost of sales. For a tour operator, cost of sales would include at least inclusion of the following: cost of direct staff wages, insurances and equipment for starters.

Frequently Used Generic Financial KPIs

- Turnover
- Profitability
- Productivity
- Gearing/Insolvency
- Liquidity
- Working Capital

Frequently Used KPIs for Turnover (Sales)

Sales/Market Mix

- This KPI shows the breakdown of sales revenue generated by different categories of product or service type:

	%
Accommodation	
Food	
Weddings	
Tour Groups	
Special Event	
	100%

Geographic Mix

- This KPI shows the geographical breakdown of sales revenue generated from customers:

	%
Country of origin	
Republic of Ireland	
Northern Ireland	
Great Britain	
France	
Germany	
Italy	
Spain	
United States	
Australia	
Other	
	100%

Frequently Used KPIs for Turnover (Sales)

Proportion of Repeat Business

- This KPI measures the proportion of sales revenue generated by "repeat" customers over a particular timeframe. It is a measure of the business success in attracting and retaining customers and of its general level of service.

$$\% = \frac{\text{Sales (£) generated by repeat customers}}{\text{TOTAL SALES (£)}} \times 100$$

Proportion of New Business

- This KPI measures the proportion of sales generated by the business that is "new" to your organisation over a particular timeframe. It is a measure of the success of the business in attracting new customers and can be used as a guide to success of marketing activity. It may also be used for different categories of sale:

$$\% = \frac{\text{Sales (£) generated by new customers}}{\text{TOTAL SALES (£)}} \times 100$$

Frequently Used KPIs for Profitability

Gross Profit Margin Ratio

- This ratio measures management's overall ability to realise profits by generating sales and controlling the expenses for which it has direct responsibility (i.e. Revenue less direct costs, which include materials, direct labour and variable overheads). This is a key industry benchmark (Sales Less Cost of sales = Gross Profit). The profit margin ratio can also be calculated on a product or service basis where sales and cost of sales are analysed between specific product or service activities:

Profit margin ratio = % $\dfrac{\textbf{Gross Operating Profit (£)}}{\textbf{Total Revenue (£)}}$ **X 100**

EBITDA Ratio

- Earnings, before interest, tax, depreciation and amortisation is a measure of a company's overall financial performance and is used as an alternative to simple earnings or net profit. EBITDA removes the impact of capital investments like property, plant, and equipment and also removes the impact of how the business is financed. EBITDA can therefore be used as a proxy for the free cashflow of the business:

EBITDA margin ratio = % $\dfrac{\textbf{EBITDA (£)}}{\textbf{Total Revenue (£)}}$ **X 100**

Net Profit Ratio

- This ratio measures the profitability of the business after deduction of tax. Typically, the profit corresponds to the Gross Profit less any fixed expenses of the business over which management have no, or limited, control within a fixed time-frame (e.g. loan interest, depreciation, rent, insurance and tax). The ratio can be calculated as follows:

Net Profit ratio = % $\dfrac{\textbf{Profit after tax (£)}}{\textbf{Total Revenue (£)}}$ **X 100**

- **Footnote**: information for these ratios is sourced from Profit & Loss A/C.

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Frequently Used KPIs for Productivity

- These KPIs, whilst basic, may be a strong starting point for measuring productivity or value added:

Direct Wages as a % of Turnover	Direct Wages (£) / Total Sales (£)
Indirect Wages as a % of Turnover	Indirect Wages (£) / Total Sales (£)
Turnover per Direct Employee	Total Sales (£) / Average No. of Direct Employees
Turnover per Total Employee	Total Sales (£) / Average No. of Employees
Value Added per Direct Employee	Gross Profit + Depreciation + Indirect Wages + Direct Wages (£) / Average No. of Direct Employees
Value Added per Total Employee	Gross Profit + Depreciation + Indirect Wages + Direct Wages (£) / Average No. of Employees
Average Salary per Direct Employee	Direct Wages (£) / Average No. of Direct Employees
Average Salary per Employee	Direct Wages + Indirect Wages (£) / Average No. of Employees

- **Footnote**: Information for these ratios is sourced from Profit & Loss A/C, Notes to Financial Statements or payroll records.

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Frequently Used KPIs for Gearing/Insolvency

These KPIs are used to measure a business' ability to meet its debt obligations.

Gearing Ratio %

- Gearing (otherwise known as "leverage") measures the proportion of assets invested in a business that are financed by long-term borrowing. In theory, the higher the level of borrowing (gearing) the higher are the risks to a business, since the payment of interest and repayment of debts are not "optional" in the same way as dividends. However, gearing can be financially sound part of a business' capital structure particularly if the business has strong, predictable cashflows:

$$\textbf{Gearing (leverage) ratio (\%)} = \frac{\textbf{Bank overdraft \& Finance Creditors \& Bank Term Loans (£)}}{\textbf{Capital Employed (£)}} \ \textbf{X 100}$$

Debt Service Ratio/Debt Cover

- The debt service coverage ratio (DSCR) is a measurement of the cashflow available to pay current debt obligations. The ratio states the net operating income as a multiple of debt obligations due within one year, including interest, principal, sinking-fund and lease payments.

$$\textbf{Debt Service Cover Ratio (\%)} = \frac{\textbf{EBITDA (£)}}{\textbf{Interest \& Capital (£)}}$$

Interest Cover Ratio

- This ratio expresses the number of times interest charges can be covered from profits. The greater the number of times interest is earned, the greater the safety afforded to creditors and lenders. The interest cover ratio can be calculated as follows:

$$\textbf{Interest cover ratio (\%)} = \frac{\textbf{Profit before interest \& Tax (£)}}{\textbf{Interest Charges (£)}}$$

- **Footnote**: information for these ratios is sourced from Profit & Loss A/C & Balance Sheet.

Frequently Used KPIs for Liquidity

These ratios are used to determine a business' ability to pay of its current liability obligations as they fall due, without raising external capital.

Current Ratio

- The most common liquidity ratio is the current ratio, which is the ratio of total current assets to total current liabilities. It reveals the amount of current assets for every £ of current liabilities. It reflects the ability of the business to manage its working capital and its day to day operations (ideally the ratio should be between 150% and 200%).

$$\textbf{Current ratio} = \frac{\textbf{Current Assets (£)}}{\textbf{Current Liabilities (£)}} \times 100\%$$

Acid-test Ratio

- The acid-test ratio (sometimes referred to as the Liquidity ratio) measures a business' liquidity by considering "quick assets" – current assets minus stocks and Work In Progress (WIP). This is often a more stringent measure of a business' liquidity because it may take several months to convert stock and WIP to cash. It reflects the ability of the business to pay its debts by comparing cash, or near cash, assets with short term liabilities (ideally the ratio should be 100% or above).

$$\textbf{Acid test ratio} = \frac{\textbf{Current Assets – Stock \& WIP (£)}}{\textbf{Current Liabilities (£)}} \times 100\%$$

- **Footnote**: information for these ratios is sourced from the Balance Sheet.

Frequently Used KPIs for Working Capital

Average Collection Period (Debtor Days)

- This ratio reveals the average number of days taken by the business to collect its trade debtors (debts due from credit sales), or the average number of days credit allowed to debtors by the business. The lower this ratio, the better since it means that the business is being paid more promptly.

Average Collection Period (or debtor days)	**=**	**Trade Debtors (inc. VAT) (£)** / **Sales (inc. VAT) (£)**	**X 365 (or number of days in period if not 1 year)**

Average Payment Period (Creditor Days)

- This ratio reveals the average number of days taken by the business to pay its trade creditors (trade suppliers), or the average number of days credit allowed to the business by trade creditors/suppliers. The higher this ratio, the better since it means that the business is being given longer time to pay its trade creditors.

Average Payment Period (or Creditor days)	**=**	**Trade Creditors (inc. VAT) (£)** / **Raw Materials (£)**	**X 365 (or number of days in period if not 1 year)**

Stock Turnover

- This ratio measures the number of times stock needs to be replaced during the period. Generally, the greater number of times that stock is "turned over", the better, since stock can be expensive to maintain and there is increased risk of wastage, the longer it is held. In respect of hotels, restaurants and bars, stock turnovers are usually calculated separately for food and beverage items.

Stock Turnover (Times)	**=**	**Raw Materials (£)** / **Stock – Stock Movement (£)**	**X 365 (or number of days in period if not 1 year)**

Footnote: Information for these ratios is sourced from the Balance Sheet and Profit & Loss A/C.

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Primary KPIs in use in the Hotel Industry

The following table outlines the primary KPIs in use in the hotel industry:

Accommodation	Food	Beverage
Average Room Rate	Cost of Sales Ratio	Cost of Sales Ratio
Bedroom Occupancy Rate	Gross Profit Ration	Gross Profit Ratio
Revenue per Available Room	Average Spend per Customer	Average Spend per Customer
Cost per Occupied Room	Labour Cost Ratio	Labour Cost Ratio
Labour Cost Ratio		

Frequently Used KPIs for Accommodation

Average Room Rate

Although room rates may vary depending on market segment, many business' calculate an average room rate (ARR). The average room rate reveals the average rate charged per paid room occupied and is calculated by dividing rooms revenue by the number of paid rooms occupied as follows:

Average Room Rate (ARR) **= £** $\dfrac{\textbf{Rooms revenue (net of VAT)}}{\textbf{No. of Rooms Sold}}$

Bedroom Occupancy Rate

This operating ratio compares the number of rooms sold to the number of rooms available. Managers rely on this ratio in determining whether, or not, the premises are being utilised efficiently and whether expansion is possible. Bedroom occupancy rate is calculated by dividing the number of rooms sold by the number of rooms available, as follows:

Bedroom occupancy rate **= %** $\dfrac{\textbf{No of rooms sold}}{\textbf{No of rooms available}}$ **X 100**

Frequently Used KPIs for Accommdation (Cont)

Revenue Per Available Room

This operating ratio compares rooms revenue to the number of rooms available. Revenue per available room (REVPAR) is calculated as follows:

Revenue per available room £(REVPAR) = £ $\dfrac{\textbf{Rooms revenue (net of VAT)}}{\textbf{No. of Rooms available}}$

OR **ARR X rooms occupancy rate**

Cost Per Occupied Room

This operating ratio compares the cost of the rooms department to the number of rooms sold. Managers rely on this ratio to determine whether, or not, room costs are reasonable. Occupied room cost is calculated by dividing the cost of the rooms department by the number of rooms sold, as follows:

Cost per occupied room = £ $\dfrac{\textbf{Total rooms department cost}}{\textbf{No of rooms sold}}$

Frequently Used KPIs for Food & Beverage

Food Cost of Sales Ratio

This operating ratio compares the cost of food sales to food revenue. Food service managers rely on this ratio to determine whether, or not, food costs are reasonable. The Food Cost percentage is calculated by dividing the cost of food by food revenue, as follows:

$$\text{Food cost of sales ratio } \% = \frac{\text{Cost of food sales}}{\text{Food revenue (net of VAT)}} \text{ X } 100$$

Beverage Cost of Sales

This operating ratio compares the cost of beverage sales to beverage revenue. Beverage service managers reply on this ratio to determine whether, or not, beverage costs are reasonable. The Beverage cost percentage is calculated by dividing the cost of beverage sales by beverage revenue, as follows:

$$\text{Beverage cost of sales } = \% \ \frac{\text{Cost of beverage sales}}{\text{Beverage revenue (Net of VAT)}} \text{ X100}$$

Frequently Used KPIs for Food & Beverage (Cont)

Food Average Spend

This operating ratio identifies the amount of the average food spend per cover and is calculated by dividing total food revenue by the number of covers. Covers refers to guests served in the food operation during the period. The average food spend can be calculated as follows:

$$\text{Food average spend} = £ \frac{\text{Food revenue (net of VAT)}}{\text{Number of covers}}$$

Beverage Average Spend

This operating ratio identifies the amount of the average beverage spend per cover and is calculated by dividing total beverage revenue by the number of covers. Covers refers to guests served in the beverage operation during the period. The average beverage spend can be calculated as follows:

$$\text{Beverage average spend} = £ \frac{\text{Beverage revenue net of VAT}}{\text{No. of Covers}} \text{ X } 100$$

Examples of Marketing KPIs

- Monthly new leads/prospects.
- Qualified leads per month.
- Cost per lead generated.
- Cost per conversion.
- Average time of conversion.
- Retention rate.
- Customer acquisition cost.

Website KPIs

- Sessions.
- Page views.
- Page views per session.
- Users.
- New Users %.
- Bounce Rate %.
- Conversion for call-to-action content.

Social Media KPIs

- Social media reach and impact.
- LinkedIn impressions and new followers.
- Facebook impressions and new followers.
- Twitter impressions and new followers.
- Instagram new followers.

Benchmarking

- Comparing KPIs on an internal basis only may suggest that your business is performing better/less than expected, but it takes no account of how your business has performed against best in class or the wider industry.

- Measuring your performance against external benchmarking enables you to establish whether your increase or reduction is better than or worse then, the general trend in the industry – this is much more meaningful in helping you and third parties understand how your business is performing.

- Benchmarking against the industry norms will allow you to identify trends, the areas you are over and under performing in and prompt you to investigate the cause factors and ultimately make decisions to improve the profitability, value and sustainability of your business.

Concluding Comments on KPIs

- KPIs generally are an essential tool for measuring the success of your business and making the adjustments required to make it successful.

- The usefulness of individual KPIs, though, have their limits.

- The most important part of any KPI is its utility. Once it has outlined its usefulness you shouldn't hesitate to cease using it and get started on designing new KPIs that better align with your evolving and underlying business objectives.

- The quality of management information systems and accounting records is key to effective use of KPIs.

Life Fulfilment/Work Life Balance

"You make a living out of what you get;
You make a life, out of what you give".

- **Winston Churchill**

Never get too busy making a living
that you forget to make a life

Conclusion

- Agile planning is pivotal to business success and the future belongs to those who plan for it, especially in the context of responding to living with and post Covid-19.
- If we don't have a destination, we will never get there.
- Effective KPIs complemented by benchmarking are a key tool to help you better understand your business, measure and monitor performance, and recognise problems for corrective action.
- SMARTER KPIs coupled with astute business planning processes will enhance the prospects of a business to increase profits, create better cashflow and ultimately improve the value and sustainability of the business going forward.
- Do not restrict your business to the most commonly used KPIs, as they may not be entirely relevant to your circumstances.

Conclusion (Cont).

- Ideally, it is best to use figures from real case studies, financial statements and management information to illustrate the effectiveness of KPIs and benchmarking.
- Given time constraints and the breadth and variety of business operations in the NI tourism sector, it was decided to concentrate on identifying the most commonly used KPIs in the tourism sector and the formulae for the various KPIs. A workshop would be a better forum to illustrate real case study figures.
- However, if today's webinar has raised an issue or question that you would like to discuss in private, you can get in touch via email to: industry.development@tourismni.com and Tourism NI will organise that you get a call from a finance expert.
- Looking forward to participating in the Q&A session now.
- Thank you.

Questions
&
Answers

Thank you

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