

Title: USALI – Summary Operating Statement  
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USALI –  
Summary Operating Statement

# Summary Operating Statement Components

- Operating Departments
  - Revenues
  - expenses
- Departmental Income (Gross Profit)
- Undistributed Operating Expenses
- Gross Operating Profit (GOP) or income before fixed charges
- Management Fees
- Fixed Charges
  - Rent, property taxes & insurance
- Net Operating Income (NOI) or EBITDA
- Reserve for Replacement
- Adjusted NOI

# 2014 Trends

- 7% increase in Total Revenue in 2014 from year 2013
  - 7.6% increase in rooms revenue
    - 3.1% increase in Occupancy
    - 4.3% increase in ADR
  - F & B revenues increased by 5.9%
  - Other operated departments revenue increased by 4.3%
- Total expenses increased by 4.9% in 2014 from 2013
  - Labor Costs increased by 3.6%
  - Total departmental expenses increased by 4.8%
  - Undistributed Operating Expenses increased by 4.9%
    - Administrative & general increased 4.4%
    - Sales & marketing increased by 5.8%
    - Property operation & maintenance increased by 3.8%
    - Utility Costs increased 5.1%
  - Management Fees increased by 8.7%
- 13% increase in Net Operating Income

\*Source: PKF Trends 2015, All Full Service Hotels – 2014 data

# Undistributed Operating Expenses

Administrative and General

+ Sales and Marketing

+ Property Operation and Maintenance

+ Utilities

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Total Undistributed Expenses

# Undistributed Operating Expenses

• Administrative and General	8.7%
• Sales & Marketing	8.2%
• Property Operations & Maintenance	4.4%
• Utility Costs	3.5%
Total (Percent of Total Revenue)	24.8%

\*Source: PKF Trends 2015 All Full Service Hotels – 2014



# Payroll Expenses

- Payroll and Related Expenses
  - Salaries, Wages, and Bonuses
    - Salaries and Wages
    - Bonuses and Incentives
  - Payroll-Related Expenses
    - Payroll Taxes
      - FICA, FUTA, SUTA, SDI
    - Supplemental Pay
      - Vacation pay, sick pay, holiday pay, paid time off, etc.
    - Employee Benefits
      - Health insurance, employee meals, pension contributions, etc.



# Payroll Taxes

- Federal Retirement & Medicare Tax (FICA)
  - Contributions by employees & employers (7.65% each including Medicare)
- Federal Unemployment Taxes (FUTA)
  - \$56/employee
- State Unemployment Taxes (SUTA)
  - Vary based on companies' employment history, ranging from 1% to 10%
- State Disability Insurance (SDI)
  - Rates vary based on companies' injury history
  - Used for Workers' Comp.

# Employee Benefits

- Automobile Allowance
- Child Care
- Contributory Savings Plan (401K)
- Dental Insurance
- Disability Pay
- Group Life Insurance
- Health Insurance
- Meals
- Miscellaneous
- Nonunion Insurance
- Nonunion Pension
- Profit Sharing
- Stock Benefits
- Union Insurance
- Union Pension
- Worker's Compensation Insurance
- Other

# Other Expenses

- Audit Charges
- Bank Charges
- Cash Overages and Shortages
- Centralized Accounting Charges
- Complimentary Services and Gifts
- Contract Services
- Corporate Office Reimbursable
- Credit and Collection
- Credit Card Commissions
- Decorations
- Donations
- Dues and Subscriptions
- Equipment Rental
- Human Resources
- Information Systems
- Laundry and Dry Cleaning
- Legal Services
- Licenses and Permits
- Loss and Damage
- Miscellaneous
- Operating Supplies
- Payroll Processing
- Postage and Overnight Delivery Charges
- Printing and Stationery
- Professional Fees
- Provisions for Doubtful Accounts
- Security
- Settlement Costs
- Telecommunications
- Training
- Transportation
- Travel – Meals and Entertainment
- Travel – Other
- Uniform Laundry
- Uniforms

# Sales and Marketing – Schedule 6

EXPENSES	CURRENT MONTH			YEAR-TO-DATE		
	ACTUAL	FOR ECAS T	PRIOR YR	ACTUAL	FOR ECAS T	PRIOR YR
	\$ %	\$ %	\$ %	\$ %	\$ %	\$ %
Payroll and Related Expenses						
Salaries, Wages, and Bonuses						
Salaries and Wages						
Bonuses and Incentives						
Total Salaries, Wages, and Bonuses						
Payroll-Related Expenses						
Payroll Taxes						
Supplemental Pay						
Employee Benefits						
Total Payroll Related Expenses						
Total Payroll and Related Expenses						
Other Expenses						
Sales Expenses						
Complimentary Services and Gifts						
Contract Services						
Corporate Office Reimbursables						
Decorations						
Dues and Subscriptions						
Equipment Rental						
Fam (Familiarization) Trips						
Laundry and Dry Cleaning						
Miscellaneous						
Operating Supplies						
Outside Sales Representation						
Postage and Overnight Delivery						
Printing and Stationery						
Promotion						
Telecommunications						
Trade Shows						
Training						
Travel—Meals and Entertainment						
Travel—Other						
Total Sales Expenses						
Marketing Expenses						
Agency Fees						
Collateral Material						
Contract Services						
Direct Mail						
E-Commerce						
Franchise and Affiliation Advertising						
Franchise Fees						
In-House Graphics						
Loyalty Programs and Affiliation Fee						
Media						
Miscellaneous						
Outdoor						
Outside Services						
Photography						
Total Marketing Expense						
TOTAL OTHER EXPENSES						

# Sales Expenses

- Complimentary Services and Gifts
- Contract Services
- Corporate Office Reimbursable
- Decorations
- Dues and Subscriptions
- Equipment Rental
- Fam (Familiarization) Trips
- Laundry and Dry Cleaning
- Miscellaneous
- Operating Supplies
- Outside Sales Representatives
- Postage and Overnight Delivery Charges
- Printing and Stationery
- Promotion
- Telecommunications
- Trade Shows
- Training
- Travel – Meals and Entertainment
- Travel - Other

# Marketing Expenses

- Agency Fees
- Collateral Material
- Franchise fees
  - Franchise and Affiliation fees
  - Royalty fees
  - Advertising fees
  - Loyalty Programs Fees
  - Reservation fees are charged to rooms department
- Contract Services
- Direct Mail
- E-Commerce
- In-House Graphics
- Media
- Miscellaneous
- Outdoor
- Outside Services
- Photography

# Franchise Fees

- Hotel Franchise Fees are the compensation paid to the franchisor for the use of the chain's name, logo, identity, image, goodwill, operating systems and procedures, marketing plans, and referral and reservation systems
- The median franchise fee as a % of rooms revenue in 2014 for all types of hotels was 11.8% (HVS)
  - Extended stay hotels – from 13.3% to 9.5%, e. g. Element, Residence Inn, Mainstay Suites
  - Limited service hotels – from 14.7% to 5.7%, e.g. Hampton Inn, Quality Inn/Suites, Best Western
  - Select service hotels – from 14.5% to 3.3%, e.g. Hilton Garden Inn, Ramada Inn, Lexington Hotel
  - Full service hotels – from 14.2% to 7.7% e. g. Marriott, Hilton, Sheraton, Ascend
- Franchise Fees are normally formulated utilizing an initial fee paid upon applying for the franchise plus continuing fees paid periodically during the term of the franchise.

# Basic Components of Franchise Fee

## Initial Fee

- Minimum Dollar Amount + Additional Amount Based on Hotel's Room Count
- Example:
  - The initial fee may be a minimum fee of \$45,000 plus \$300 per room for each room over 150
    - so a hotel with 125 rooms would pay \$\_\_\_\_\_
    - one with 200 rooms would pay \$\_\_\_\_\_



# Continuing Fees

- Continuing fees are assessed based on several different formulas.
  - Royalty fees are generally based on a percentage of rooms revenue (between 0.9 – 7.9% in 2014).
  - Advertising & marketing fees are generally calculated on a percentage of rooms revenue (between 0.4% to 4.3% in 2014).
  - Reservation fees may also be based on either a percentage of rooms revenue (0.1% to 3.6% in 2014) or a dollar amount per available room per month (\$0.14 to \$8.65).
  - Frequent traveler fee are typically based on a percentage of total or rooms only revenue (0.0% to 2.6% in 2014) generated by a program member staying at a hotel, or a fixed dollar amount (\$2.30 to \$6.35) for each room occupied by a program member.

# Franchise Fee Example

Hilton Garden Inns - 2014

## A. Initial Franchise Fee

\$75,000 for the first 150 guestrooms plus \$450 per room in excess of 150 rooms (2% of rooms revenue and average \$560 per room for 2014)

## B. Continuing Franchise Fee (% of rooms revenue)

Royalty Fee : 5.5%

Reservation Fee: 0.3%

Advertising & Marketing Fee: 4.3%

Frequent traveler fee: 2.5%

Misc. fee: 1.6%

## C. Total Cost

The estimated total cost for a Hilton Garden Inn Franchise in 2014 was 14.5% of rooms revenue; over a 10-year period of time is 12.91% of rooms revenue or about \$43,527 per room

# Franchise Fee Review Questions

1. What revenue figure is franchise fees based on?
2. What is the difference between the initial franchise fee and royalty fee?
3. Will franchise fees increase or decrease when rooms revenue increases?
4. Franchise fees are roughly what percentage of rooms revenue for the hotel industry in 2012?
5. Franchise fees are allocated to which undistributed operating expense category?

# Hotel Franchise Fee Calculation

- What is the total franchise fee 1) on a per available room basis and 2) as a percentage of rooms revenue for a 300-room hotel that recorded an occupancy percentage of 75% with a \$95.00 average room rate? The franchise fee for the hotel was based on the following fee structure. The initial fee is based on a minimum fee of \$25,000 plus \$150 per room in excess of 100 rooms. The hotel is required to pay a 3% of rooms revenue royalty fee, a 2% of rooms revenue reservation fee, a marketing fee of \$0.50 per available room per day, and a \$3.00 per occupied room frequent traveler fee (frequent travelers represent 15% of total rooms occupied).



# Property Operation and Maintenance (Example)

## Payroll and Related Expenses

Salaries & Wages	\$420,997	
Employee Benefits	\$144,881	
<i>Total Payroll and Related Expenses</i>	\$565,878	49.2%

## Other Expenses

.....		
Contract Services	\$135,236	
Grounds and Landscaping	\$138,156	
Removal of Waste Matter	\$62,430	
.....		
<i>Total Other Expenses</i>	\$584,929	50.8%

<b>Total Department Expenses</b>	<b>\$1,150,807</b>	<b>100%</b>
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# Utility Schedule (*Example*)

## Utility Costs

Electricity	\$603,003	69%
Gas & Oil	\$116,607	13%
Water & Sewer	\$151,030	18%
<i>Total Utility Costs</i>	<hr/> \$870,640	100%



# Undistributed Operating Expenses

## Review Questions

1. Undistributed operating expenses represent approximately what percent of total revenue in full-service hotels?
2. What is the largest undistributed expense category based on its percentage of total revenue?
3. Which undistributed operating expense category has increased the most in recent years as a percentage of total revenue?
4. Which undistributed operating expense category has the highest amount of fixed expenses to total expenses?

# Gross Operating Profit (GOP)

Revenue (100%)

- Direct Operating Expenses or departmental expenses (40%)
- 

Gross Profit or departmental income (60%)

- Undistributed Operating Expenses (25%)
- 

Gross Operating Profit (35%)

**or** operating income

**or** income before fixed charges

**or** house profit

# Management Fees

Base Fees

+ Incentive Fees

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= Total Management Fees

# Management Fee Structure

## 1. Base Fee

- determined solely by percentage of total revenue, creating an incentive for the operator to increase marketing efforts and other activities that increase sales volume

## 2. Incentive Fee

- based on a specified percentage of a defined net income, usually determined by sales volume and expense control. Therefore, incentive fee rewards the operator for efficient, profitable management

## 3. Combination Fee

- For example, a hotel company may charge 4% of gross revenue and 25% of the adjusted income

# Management Fee Structure

	Base Fee (% of total revenues)			Incentive Fee (% of GOP)
	Low	Median	High	
Brand operators				
Full-service	2	3.25	3.5	6 to 10
Select-service	3	5	7	8 to 12
Independent operators				
Full-service	1.5	4	6	5 to 10
Select-service	2.5	2.75	3	8 to 12

# Management Fee Example

Base Fee 3% of total revenue \$20,008,491	\$ 600,254
Incentive Fee 9% of GOP of \$5,443,491	\$ 489,914
Total Management Fee	\$ 1,090,169

# Top Third-Party Hotel Management Companies

Based on 'Hotel Management'

Brand	Rooms managed	Rank 2014	Rank 2013
Interstate Hotels and Resorts	78,681	1	1
Aimbridge Hospitality	34,331	2	9
Crescent Hotels & Resorts	22,148	3	5
White Lodging Services Corp.	21,591	4	2
Pillar Hotels & Resorts	21,468	5	3
Pyramid Hotel Group	17,378	6	Not Ranked
TPG Hospitality	17,052	7	6
Remington	15,991	8	7
HHM	15,990	9	8
GF Management	15,729	10	4

# Management Fee Problem

- An 220-room independent hotel recorded an occupancy percentage of 66.2% and an average room rate of \$133.75. The hotel's rooms revenue ratio to total revenue was 56.5%, and GOP was 32.4%. What is the management fee for the hotel based on a structure that required the owner to pay the managing company 1.6% of gross revenue and 8% of GOP? Compute the management fee both 1) as a percentage of total revenue and 2) on a per available room basis.



# Fixed Charges – Rent, Property Taxes & Insurance

- **Rent**

- Land and Buildings
- Information Systems Equipment
- Telecommunications Equipment
- Other Property and Equipment

- **Property Taxes**

- Real Estate Taxes
- Personal Property Taxes
- Business and Transient Occupation Taxes
- Other

- **Insurance**

- Building and Contents
- General Liability

# NOI – Net Operating Income

Revenue

- Direct Operating Costs or departmental expenses
- 

Gross Profit or departmental income

- Undistributed Operating Expenses
- 

Gross Operating Profit

- Rent, property taxes, insurance
- 

Net Operating Income (EBITDA)

# Reserve for Replacement

- Capital Expenditures from 2001-2005 for all properties were:

Total Sample	5.4% of total revenue
Public Hotel Companies	5.5%
Private Hotel Entities	4.7%

# Other Fixed Charges

## Interest Expenses

- Mortgages
- Notes Payable
- Obligation under Capital Lease
- Other Long-Term-Debt
- Other

## Depreciation & Amortization

- Assets held under Capital Lease
- Buildings
- Furnishings and Equipment
- Leasehold and Leasehold Improvements
- Intangibles
- Other

# Income Taxes

- **Federal**

- Current
- Deferred

- **State**

- Current
- Deferred

# More Income Statement Review Questions

1. What figure is management base fee based on?  
What figure is incentive fee usually based on?
2. In an income statement, how to calculate gross profit (GP), gross operating profit (GOP), and net operating income (NOI)?
3. Reserve for replacement represent about what percent of total revenue in US public and private hotels from 2001 – 2005?
4. Are interest, depreciation/amortization, and income tax expenses included in calculating NOI? Why or why not?