



CANADIAN MONTHLY LODGING OUTLOOK – MAY 2013

# **BENCHMARKING CANADIAN HOTEL F&B PROFITABILITY**



## Benchmarking Canadian Hotel F&B Profitability

Hotel food and beverage (F&B) departments often have a tainted reputation in the hotel industry as a cash negative yet necessary department. They are high maintenance, difficult to staff, significantly less profitable than the rooms department, and the source of most operational headaches. In recent years, however, an increased emphasis on F&B departmental design and a shift in consumer tastes have put a new spotlight on hotel restaurants. Numerous articles about recent Canadian luxury hotel openings and their magnanimous F&B service and facilities have appeared in trade publications, but, little attention has been given to the ability of F&B operations to generate revenue and, more importantly, departmental profits.

When looking at a proposed or existing hotel development, many factors must be taken into account when making F&B projections or assessing potential challenges for profitability, including location, scale, capacity, and number and placement of F&B outlets, among others. These factors have the potential to either increase or decrease profitability, depending on the context. HVS reviewed over 200 hotel operating statements across Canada within the past three years to benchmark Hotel F&B performance. We segmented the properties by meeting space capacity, location type, and property scale. It is intended to give a broad context for understanding what the average hotel F&B department can achieve given these specific attributes.

### Banquet Space

The amount of meeting space is arguably the most important aspect of the hotel's F&B department for achieving efficient margins. Banquets tend to drive more to a hotel's bottom line than restaurants, and they create more efficiency in menu planning and labour utilization. Less customization is required, which reduces waste and leads to more profits. Increasingly, however, customers want choice even in a banquet setting. Although set menus are still the standard in banquet departments, there is a movement towards being more flexible in customization, which translates into more manpower in both the front of the house and the kitchen and in turn drives up costs.

In the following table, we segmented the hotels by amount of meeting space to identify the relationship between hotel meeting space capacity and the profitability of the F&B department.

**TABLE 1: F&B COST AND PROFIT – MEETING SPACE CAPACITY**

Meeting Space	20,000 SF Plus	15,000 to 19,999 SF	10,000 to 14,999 SF	5,000 to 9,999 SF	2,500 to 4,999 SF	0 to 2,499 SF
Average Room Count	393	309	267	167	153	111
F&B as % of Total Revenue	36.0%	28.4%	31.8%	28.3%	19.8%	15.9%
F&B Revenue PAR*	\$27,799	\$14,622	\$14,054	\$15,861	\$7,464	\$7,310
F&B Revenue POR**	\$109.43	\$57.34	\$63.55	\$62.36	\$32.37	\$30.59
F&B Cost %	74.3%	81.6%	84.9%	84.6%	83.9%	92.5%
Profit Margin	25.7%	18.4%	15.1%	15.4%	16.1%	7.5%

*PAR\* = Per Occupied Room*

*PAR\*\* = Per Available Room*

Hotel F&B departments with 20,000 square feet or more achieve significantly greater revenue and profit per occupied room than those with less than 20,000 square feet of meeting space. The large meeting capacity drives banquet revenue which runs the lowest costs in the F&B departments, resulting in more dollars to the bottom line. While the average banquet department can operate at 60% to 70% costs, the average hotel restaurant and lounge operate at more traditional F&B margins between 80 and 85% costs. Room service departments, due to staffing challenges and hours of operations generally run upwards of 90% operating costs.

On average, F&B profitability generally decreases as the amount of meeting space in the hotel diminishes. The average property with less than 2,500 square feet of meeting space had the smallest profit margin at 7.5% of departmental revenue. Many hotels in this category realized little to no banquet revenue. For these hotels, the meeting and banquet space offers some revenue producing potential but mainly acts as an amenity to capture guests and drive occupancy.

It should be noted that more meeting space does not simply lead to increased profitability. The amount of meeting space must be tailored to the size of the property and the density of the surrounding market. The industry average is approximately 50 square feet of meeting space per room, which is consistent with the sample of Canadian hotels used in this survey. A knowledgeable developer or operator should understand the relationship of F&B profitability to rooms profitability, recognizing the dynamics of a market and the meeting space capacity the market can potentially support.

### Location

The density of the area surrounding the hotel also plays a role in the profitability of the F&B department. We have grouped the hotel statements in our sample into four distinct location categories: Downtown/urban, suburban, airport, and resort. Downtown/urban and suburban hotels generally have more surrounding density than resort and airport properties. Resort properties are often in remote areas and have a much higher guest F&B capture rate because guests lack alternative dining options. The following table shows the profit and expenses for each of these location categories.

**TABLE 2: F&B COST AND PROFIT –LOCATION**

Location Type	Downtown/ Urban	Suburban	Resort	Airport
Average Room Count	348	138	72	143
Average Meeting Space	17,500	7,000	3,500	7,100
F&B as % of Total Revenue	33.1%	30.7%	29.7%	25.7%
F&B PAR	\$24,439	\$12,483	\$22,267	\$10,671
F&B POR	\$94.57	\$56.62	\$96.43	\$42.41
F&B Departmental Cost %	75.8%	75.5%	83.8%	83.1%
Profit Margin	24.2%	24.5%	16.2%	16.9%

On average, Resort hotels have a smaller guestroom and meeting space inventory than downtown hotels, but downtown and resort hotels nevertheless achieve similar F&B revenue per occupied room because the resort hotel has a very strong F&B capture rate. With respect to profitability, however, downtown hotels achieve much higher profit margins than the resort hotels. The highly seasonal nature of resort properties can lead to staffing and sourcing challenges, which drive up costs. In addition, downtown properties have the benefit of a diversified demand base and are generally less vulnerable to seasonality, which allows the F&B to operate with more efficiency. A strong resort operator will take advantage of peak season demand and pricing, while watching costs without sacrificing quality and service during shoulder season.

Suburban hotels have a similar ability to capture a more diversified demand base as business parks and offices expand outside downtown cores for cost saving reasons, although to a lesser degree. Their revenue and profit per occupied room was significantly less than that of a downtown or urban hotel.

### Property Chain-Scale

To examine the role of property chain-scale in hotel F&B profitability, we categorized the operating statements as midscale, first class, or luxury. Lower scale properties with significant F&B departments were unique, giving an

unreliable sample and therefore were excluded. The average midscale property is the smallest in both room count and F&B operations. First class properties have the largest room count on average, and they most often are located in an urban area and feature an upscale brand. Luxury hotels tend to house a larger compliment of F&B facilities, including a lounge bar, a flagship restaurant, a secondary restaurant or a cafe, and possibly other venues. The following table shows the F&B profit and expenses by property scale.

**TABLE 3: F&B COST AND PROFIT – PROPERTY SCALE**

Chain Scale	Luxury	First Class	Midscale
Average Room Count	324	388	204
F&B as % of Total Revenue	35.4%	33.8%	23.6%
F&B PAR	\$30,226	\$22,844	\$9,454
F&B POR	\$117.25	\$90.95	\$41.03
F&B Cost %	83.0%	75.1%	76.1%
Profit Margin	17.0%	24.9%	23.9%

The average luxury property achieves the most F&B revenue per occupied room. Luxury venues charge higher prices, and this type of hotel has the ability to capture more dollars per guest by offering a variety of outlets on the property. Although luxury hotels generate higher revenues, the larger number of outlets and the higher service levels also lead to higher labour and food costs. The result is less profit per occupied room than the average first class hotel, which achieves less revenue but more profit per occupied room. The average midscale hotel displays the least F&B revenue per occupied room, although the average profit margin is comparable to that of first class hotels.

For Luxury property operators, it is imperative that a watchful eye is kept on each individual F&B revenue source. The extensive facilities can lead to significant labour challenges and creeping food costs due to the high quality of ingredients and level of personalization expected in these types of hotels. These properties demand a downtown urban location with high density to maintain their demand base.

## Conclusion

Our survey provides an overall indication of how meeting space capacity, location type, and property scale affect the profitability of hotel F&B departments and a broad context for understanding what the average hotel F&B department can achieve given these specific attributes. These rough guidelines can give a developer a sense of the potential of an F&B department taking into account the location, meeting space capacity and scale. For those invested in existing hotels, these guidelines provide a baseline against which to gauge performance. It is important to note that this only gives a broad context of F&B departmental performance, many additional factors can have a significant effect on an individual hotels ability to succeed.



## About the Author

**Andrew Higgs** is a hotel Consulting and Valuation Associate with the HVS Vancouver office in Canada. Andrew received his Bachelor of Commerce at Ryerson University's Hospitality and Tourism Management program and has spent several years in various managerial roles in Toronto's restaurant industry.

## Canadian Lodging Outlook May 2013

STR and HVS are pleased to provide you with the month's issue of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for three major markets and the Provinces.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. For further information, please contact: [info@str.com](mailto:info@str.com) or +1 (615) 824-8664 ext. 3504.

May 2013	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2013	2012	2013	2012	2013	2012	% chg	% chg	Sample	Census
Montreal	71.6%	68.6%	\$142.10	\$134.83	\$101.81	\$92.46	0.3%	4.8%	16,534	27,869
Toronto	72.8%	71.4%	\$144.11	\$137.04	\$104.93	\$97.90	1.2%	3.1%	31,467	36,675
Vancouver	73.5%	76.2%	\$144.25	\$150.58	\$106.07	\$114.71	0.1%	-3.4%	19,588	26,291
<b>Provinces</b>										
Alberta	66.0%	64.4%	\$141.14	\$136.24	\$93.18	\$87.73	0.5%	3.1%	39,459	68,951
British Columbia	64.8%	65.5%	\$135.51	\$138.74	\$87.75	\$90.90	0.1%	-1.1%	38,016	83,099
Manitoba	61.2%	62.6%	\$118.25	\$117.45	\$72.41	\$73.58	4.6%	2.2%	5,737	14,263
New Brunswick	55.0%	56.1%	\$109.36	\$110.66	\$60.20	\$62.10	-2.2%	-4.1%	5,186	10,483
Newfoundland	73.7%	82.2%	\$147.95	\$144.74	\$109.02	\$118.92	4.2%	-6.5%	2,025	5,825
Nova Scotia	61.8%	66.6%	\$120.63	\$126.55	\$74.59	\$84.24	0.1%	-7.0%	6,407	12,344
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	204	1,373
Ontario	65.3%	64.7%	\$129.03	\$125.35	\$84.26	\$81.08	0.7%	1.7%	85,649	135,816
Prince Edward Island	47.4%	46.6%	\$118.74	\$109.13	\$56.31	\$50.88	-0.3%	1.4%	916	4,014
Quebec	66.7%	65.8%	\$137.45	\$134.53	\$91.70	\$88.57	0.1%	1.4%	27,373	76,214
Saskatchewan	69.3%	68.2%	\$135.39	\$127.16	\$93.84	\$86.75	3.3%	5.0%	8,359	17,387
Yukon Territory	40.6%	42.1%	\$140.84	\$108.13	\$57.20	\$45.57	0.0%	-3.6%	811	2,154
<b>Canada</b>	<b>65.1%</b>	<b>64.8%</b>	<b>\$133.01</b>	<b>\$130.57</b>	<b>\$86.61</b>	<b>\$84.65</b>	<b>0.6%</b>	<b>1.1%</b>	<b>220,142</b>	<b>432,337</b>

May 2013 Year-To-Date	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2013	2012	2013	2012	2013	2012	% chg	% chg	Sample	Census
Montreal	59.2%	58.7%	\$131.81	\$127.56	\$78.09	\$74.82	0.4%	1.5%	16,534	27,869
Toronto	64.8%	63.2%	\$138.47	\$133.30	\$89.74	\$84.22	0.8%	3.4%	31,467	36,675
Vancouver	59.9%	62.6%	\$129.38	\$133.06	\$77.49	\$83.29	0.2%	-4.1%	19,588	26,291
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\*INS = Insufficient Data



## About STR

**STR** provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com)

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