Article Title

Does Financial Performance Depend on Hotel Size? Analysis of the Financial Profile of the U.S. Lodging Industry

Citation


Abstract

This research presents a financial profile of the U.S. Lodging Industry based on an analysis of 2,091 financial statements (fiscal year 2011) for individual hotels ranging in asset size of $500 thousand to $250 million. The study analyzes summary results of the financial position and profitability of hotels based on a common size analysis of Balance Sheets and Income Statements. Furthermore, the study analyzes 10 key performance benchmarks as measured by Liquidity, Solvency and Operating Ratios. The results of the study show a divergence in the hotel industry’s financial performance based on the size of the hotel and by upper, median and lower quartiles of the study sample.

Methods

For the study, secondary data was used based on the annual statement studies published by Robert Morris Associates (RMA) for 2011. The database, which represents 762 industries, has been used extensively by credit risk professionals for the past 92 years and is considered an industry standard for financial data. The data comes directly from the original source (individual hotels for our study) as categorized under the North American Industry Classification System (NAICS-72110). The data is presented in the Common Size Format for Balance Sheet and Income Statement and the computation is based on a percentage of total assets and sales, respectively. The data also includes nineteen of the most commonly used ratios to include liquidity, coverage, leverage and
operating.

**Conclusion**

On the basis of the study sample analyzed for U.S. hotels, it does appear that differences exist in the financial position and operating performance of large versus small hotels. Furthermore, an analysis of liquidity, solvency and operating ratios for the industry revealed that in several cases the risk and return profile of the hotel industry varied based on asset size and quartiles for each hotel based on asset size. For the year analyzed (2011) the overall industry performance based on profitability, return on equity, and asset turnover was quite low. However, the industry as a whole generated adequate earnings to cover interest payments. With the exception of the lower quartiles, the industry’s liquidity position was also satisfactory.