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Hospitality Financial Leadership - Negative Flow Thru

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One of the most read articles I have written is on the topic of flow thru and how to use it in your financial statements. Understanding flow thru is not something that comes easily to most people immediately, but once you look at it and do the calculation it usually clicks. Once it drops in place you have got it for good. To take things one step further in this piece I am going to discuss negative flow thru.

Negative flow thru or retention is something that most people in North America have not had to deal with very much in the past decade. We have just crossed over a massive stretch of growth in our industry that was marked by 100 straight months of RevPAR growth. That's some serious performance. almost always means happens when the tables are turned? What should happen when revenues decrease compared to the same month last year or YTD to last year?

The basic and obvious answer to that question is nothing good comes from a decrease in revenues in your hotel. Many costs in your hotel are largely fixed. The biggest variable expenses are payroll at around 50% of total revenue according to a recent article by *STR Trends*, and it's one area of the hotel that is not easily reduced. In many hotels at the beginning of a period of declining occupancy and/or rate, the negative flow thru is very high. It's quite easy for it to exceed negative 100%. If we don't react swiftly and if we fail to take the necessary actions, we can easily spend just as much on payroll and expenses before the decline and this spells disaster for the bottom line.

So how do we measure and calculate negative flow? The basic calculation is the same. What is the difference in this month's or YTD revenues to last year and what's the difference in GOP in the same period? Once we have this, we need to divide the difference in GOP by the difference in revenues. Like the example below.

	2019 Actual		2018 Actual			
Total Revenues	$3,423,455	-	$3,543,196	=	($119,741)	
					/	
GOP	$769,234	-	$829,566	=	($60,332)	-50.4% Flow

In this example, we managed to "retain" just over 50% of the lost revenues as the revenue and GOP go backward. Another way to express this is we managed to save 50 cents of every lost dollar in revenue. Depending on where we lost the revenue, this will t flow thru cheat sheet.

	2019 Actual		2018 Actual		Variance		
Total Revenues	$4,307,476	-	$4,754,749	=	($447,273)		
					/		
GOP	$2,057,469	-	$2,337,848	=	($280,379)		-62.7% Flow
Room Revenues	$3,215,444	-	$3,457,371	=	($241,927)		
					/		
Rooms Profit	$2,625,789	-	$2,847,514	=	($221,725)		-91.6% Flow
F&B Revenues	$989,254	-	$1,189,070	=	($199,816)		
					/		
F&B Profit	$175,488	-	$266,145	=	($90,657)		-45.4% Flow
MOD Revenues	$77,578	-	$83,519	=	($5,941)		
					/		
MOD Profits	$30,414	-	$33,380	=	($2,966)		-49.9% Flow
Total NOD Costs	$799,422	-	$833,980	=	($34,558)		
					/		
Total Revenues					($447,273)		-7.7% Flow
Oth Inc & Store R	$25,200	-	$24,789	=	$411		
					/		
Total Revenues					($447,273)		-0.1% Flow
	2019		2018		Variance		Impact
Rate	$111.63	-	$118.70	=	-$7.08	Var	-$203,767
Rooms Occupied	28801	-	29143	=	-342	Var	-$38,176
Average Cover	$21.65	-	$22.65	=	-$1.00	Var	-$91,250
## of Covers	91250	-	96255		-5005	Var	-$108,358
Total Payroll	$487,587	-	$584,607	=	-$97,020		

You can see from the cheat sheet where "things" (revenues and profits) went.

1. We can see the variance in room revenue and profit. When looking at the variance we need to add context to the difference. Where did the lost revenue go? In other words, how much went to lost rate and how much of the room revenue reduction can be attributed to a decline in occupied rooms. The penny dropping here is you seeing the makeup of the revenue. It's either and always rate or occupancy. A negative result of a decrease in rate has the strongest impact on profit because we have little we can save when it happens. Fewer occupied rooms are the area where we can have and should see savings. Less labor, fewer amenities, lower commission, reservation expenses, and laundry costs to name a few.
2. The same volume Food. What happe

food because there is no volume number to analyze the total revenue from one period to the other. Just the straight drop in revenue. In either case, a drop in F&B revenues is much easier to capture negative flow because we have a cost of sales (20/30% typically) and a much higher payroll cost. Negative flow in F&B is often the saving grace when revenues in your hotel go backward.

3. Minor operating departments and store rents both make up part of the overall flow thru analysis. Depending upon the nature of your MOD's you should be able to reel in savings when revenues drop. Cost of sales and payroll savings are possible and need to be closely scrutinized.
4. Non-operating departments, aka overheads, need to do their part. One of the worst results possible is we take a killing in rooms and F&B all the while we're spending more in administration, sales and maintenance costs. Every effort needs to be taken to throw the brakes on all areas of the operation. The very notion that we can spend our way out of the economic situation is a slim bet at best.
5. Lastly, we need to be completely and unequivocally focused on the biggest part of the profit equation when revenues are on the decline - payroll. When revenues are growing, we tend to add a little here and there. You know everyone is so busy... but when the tide turns all bets are off and measuring and being focused on the payroll is the biggest challenge you have and it's the area that will provide the biggest relief. Use the tools you have to measure and keep productivity targets in line. Use your EFTE stats to add color to an otherwise black and white picture. See my other articles on creating and using

http://hotelfinancialcoach.com/hospitality-financial-

Here are some targets that are a reasonable measure to strive for during a period of revenues reduction in your hotel.

1. Rooms profit from a drop in rate - 85% retention
2. Rooms profit from a drop in occupancy - 85% retention
3. Food & Beverage profit from a drop in covers - 60% retention
4. Food & Beverage profit from a drop in the average cover - 30% retention
5. Food & Beverage profit from a drop in beverage sales - 50% retention
6. MOD profits from a drop in MOD sales - analyze the makeup of the mix of last revenues and where it comes from; golf, spa and internet all behave very differently
7. Nod's - for every dollar lost on the top find 10% savings in your Nod's. Using the above example, we need to find $45,000. You're off to a good start because credit card commissions should help as well as any fees driven on revenue.
8. Last and always your biggest card to pay is payroll. Look to save 30% of lost revenues in reduced payroll. In this case, you need to find $130K in savings.
9. Overall look to save or retain at least 50% of last revenues.

To wrap things up - here are some saving ideas that might help. Nothing is ever applicable to everything, but a good list is always nice to have.

1. Don't wait for the sky to fall; do a staffing and expense review today. After 10 years of growth, there is fat to be trimmed everywhere. Get a fresh set of eyes to help you see the opportun
2. Review all your co canceling them and renegotiating annually make this

managers and line positions. One of the challenges we face is the departmentalization that keeps us from being more efficient. Be creative and innovate.

4. Make sure all operating departments have approved staffing guides and they utilize productivity standards in their weekly scheduling.
5. Review all guest-facing expenses like amenities and gifts. Don't be wasteful. The hotel business is a game of inches. 50,000 rooms sold x $.25 is where it's at.
6. Make sure each department manager knows what's in their expenses and that they have a plan each month. Here is the recipe. http://hotelfinancialcoach.com/f-tar-w-the-secret-recipe-for-creating-financial-leadership-in-your-hotel/
7. Ask for help. Strength is not thinking you have all the answers, it's the opposite. Asking for help to review your operations is exactly what the smart managers are going to do.
8. Last - remember every little bit counts, positive or negative and it's all about what you're focusing on. http://hotelfinancialcoach.com/1million/

To wrap this one up, remember three things.

1. Downturns are just part of the job. It's been a long time coming but it's nothing personal and in the long run, you're going to be better because of it.
2. You cannot save your way to prosperity, but you can always find more. Just know to never stop looking.
3. Most important - have a team that is behind you during these challenging times. Treat them with the respect they need to carry out the challenging work of managing a hotel when the |