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Profitability should be measured in terms of space and time as well as in currency

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By Thierry Poupard,

The hotel industry has been using the RevPAR concept for a long time, in an effort to link profitability to the number of rooms actually available over a given period. Combining the rates charged for each room and the occupancy level provides an accurate indicator of performance, perfectly suited to the hotel industry. Since many properties include a restaurant and a spa, it would be appropriate to use a similar concept for both activities which, by the way, ought to be now profit centres.

Restaurant & Space

In the restaurant industry the criterion of space has been used as an indicator of potential volume (how many tables in these many square meters) rather than of efficiency (what is the yield of each table). As a matter of fact, space should be represented by the number of seats that are available because this figure is rarely static and fluctuates depending on the configuration of the room, on the availability of the terrace, on the possibility to open a second room or to add tables here and there, or even on the second service that may be performed on all or some tables. However, the criteria that are currently used to measure the level of activity do not take into account these factors and remain immutable: sales, the total number of cover charge and, by deduction, the average spending per person (or ticket average). It would be more suitable to measure performance in terms of what was physically possible to achieve, therefore, to weight the turnover by the number of seats that have been actually available during each service. Thus, the use of the « RevPAS » - Revenue Per Available Seat - would provide the people in charge of marketing and operations with a measure that is not about the global performance of the restaurant on a theoretical basis but that refers to real life components such as weather (open or closed terrace), level of booking, party size and to the skills of the staff in modifying the dinning room and adding more seats and tables when it is required. Isn't the profitability of space in a restaurant as crucial as it is in a hotel?

Spa & Time

Spa, of course, is concerned the same way by this topic. The peculiarity of a spa is that the activity is less measured in terms of space than of time. Actually, the total number of treatments that can be delivered in one day depends on the number of rooms or cabins that can be used, on the attendance of the staff, or, last but not least, on the duration of each treatment. These three criteria suggest that the measure of profitability should be based on the entire time witch is actually possible to allow to treatments, and that the common denominator should be the minute. Hence, the concept of « RevPAM », Revenue Per Available Minute over the period of analysis. Take the simple example of a spa which has one single room and offers a 55 minute treatment for $90 and a 15 minute one for $30. Suppose that the opening time is 6 hours per day. At first glance one would be tempted to sell a maximum of 55 minute treatments, i.e. 6, and fill the remaining time with two 15 minute treatments. That would provide a turnover of $600. However, since the shortest treatment has a RevPAM 22% over the longest one, it should be promoted on a realistic basis. Imagine the spa achieves a mix of four 55 minute treatments and nine 15 minute, the additional income compared to the first assumption would be $30 (5%) for the day, that is a mere $28.000 € for one year, just by selling less $90 items and more $30. Amazing isn't it?

Conclusion

The first advantage of this approach is that all three indicators are not funny index: they are expressed in currency and weighted by units that are familiar to anybody (bedrooms, seats, and minutes).
Then, it stresses the fact that the management of the occupancy rate in a restaurant and of the daily planning in a spa is a great profit engine. A vacant room in a hotel is a shortfall whereas an available seat in a restaurant or an unoccupied cabin in a spa has a cost (idle staff). But what is common to all three businesses is that it can't be made up for any lost space or lost time.

The third benefit of this technique is to monitor the evolution of a restaurant or a spa with respect to what was achieved over a previous period of time. Thus, positive or negative variations can be explained assuming that the number of available seats or of available minutes is permanently recorded in the system.

The final advantage is to be able to compare different properties with an objective criterion, regardless of their size. Indeed, it is quite possible that a small unit can achieve a better income per available seat or minute than a large one which has a significantly higher turnover however a lower use of its space or time capital. This indicator would also be a significant help to estimate the size of future settlements.

About the Author

Thierry Poupard is a French citizen and lives in Paris. He is currently an independent consultant in marketing, sales and service for restaurant, hotel and spa industries in France. Feel free to visit his web sitewww.thierrypoupardservices.com or to contact him on his blog or by e-mail tp@thierrypoupardservices.comabout this article or any subject that relates to this field.
Previously he was Director of Strategic Marketing of a large European fast food chain, consultant on local marketing and sales for retail chains and networks, account director in various advertising agencies. He holds an MBA from University of San Francisco.
In addition to his professional activity, Thierry is the author of "Service Attitude" published (in French language) in June 2007. He is speaker at H.E.C. school of management for Executive Education and MBA Program, trainer at IFHOR (school for employees of hotels and restaurants), member of the Leaders Club(restaurants) and Restaurants sans Frontières (caritative) associations, columnist on neorestauration.com since January 2006, and partner of NESS, the Wellness Business Magazine.

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