

# hospitality update

A hospitality sector publication brought to you by Moore and Smalley Chartered Accountants and Business Advisors

## Hotel benchmarking survey results



Profits increase in spite of a drop in turnover

### Forewords by Judith Dugdale

2011 was a tough year across all industries and it proved particularly challenging for the hotel sector. However, it is clear from our findings that hoteliers have fought back! Our benchmarking results for 2011 actually show an average increase in net profit. This result may surprise many, but by reviewing the data in detail we can see that this increase in profit has been achieved in spite of an average drop in turnover. This leads me to conclude that hotels have managed to bring about this slight upturn in profit by undertaking cost cutting exercises as opposed to through a growth in sales.

### Turnover

Income is hard to come by and room rates are being challenged across the sector. From the graph you will see that turnover is down on average, when compared to 2010, by just over 5 per cent. Seaside locations have suffered the most with an average drop in turnover of 9 per cent on 2010. As in previous years we have seen the hotels in the Lake District buck the trend and report on average, static sales for the second year in a row.

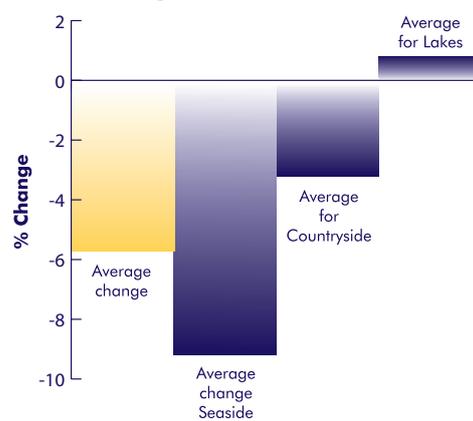
### Introduction

The specialist hospitality team at Moore and Smalley has evaluated the financial data for hotels with accounting periods ending in 2011. The raw data has been analysed based on a cross section of hotels of varying sizes located throughout Cumbria and Lancashire and compared to the results from the previous year.

### Key survey findings

- A small average increase in net profit for all hotels
- A drop in turnover of around 9 per cent for hotels in seaside resorts
- An increase in turnover of under 1 per cent for hotels in the Lake District
- Wage costs have increased from 35 per cent to 37 per cent as a percentage of turnover
- Investment in hotels has dropped considerably from 2010

% Change in turnover from 2010 to 2011



## Employee costs

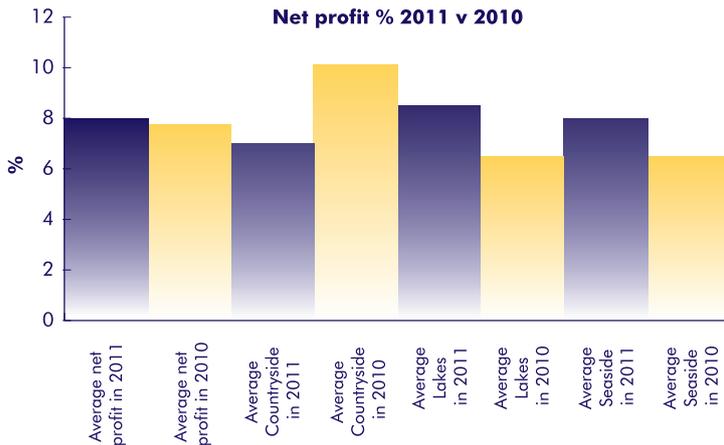
Employee costs remain the largest cost for a traditional hotel. Our findings show that the average wage cost as a percentage of turnover for our clients is 37 per cent compared to 35 per cent last year.

Payroll costs for the Lake District hotels have reduced from an average of 35 per cent in 2010 to 34 per cent in 2011 which a surprising result is given the ever rising minimum wage.

Countryside hoteliers appear to be able to keep their payroll costs down (33.8 per cent) compared to their Seaside rivals (40 per cent).

## Profit

It is clear from the graph that countryside hotels have not been able to reduce costs in line with a reduction in turnover. This is in stark contrast to the seaside and Lake District based hotels.

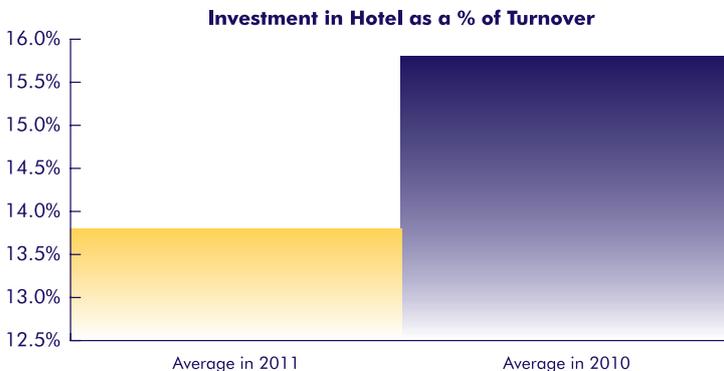


Across the board our clients are telling us that revenue management is becoming the key area of the business. Constantly changing room rates to keep up with the competition and maintain desired occupancy levels is quite often a full time job in itself.

## Investment

The average spend on hotel maintenance is down from 2011. The graph shows the investment in hotels for 2011 compared to 2010 where the investment cost is the total spend on fixtures and fittings within fixed assets as well as repairs, renewals and maintenance.

In times of austerity all costs have to be reviewed and reduced where possible and maintenance of a hotel is not immune. However, a hotel must continue with some level of maintenance otherwise customers are likely to stay elsewhere.



Marketing is one of the areas where we have seen spending reduced. Ascertaining which areas of marketing are providing you with the best return on investment is vital. Online marketing can prove cost effective for many hospitality businesses and our back page article gives some tips on how to maximise online opportunities.

# Should there be tourism related

Tourism and business leaders in our region are calling for the Government to get in line with other EU countries and drastically cut the rate of VAT on the tourism industry.

They argue that although every business sector would get a boost from a general cut in VAT, a new rate of 5 per cent for the tourism industry will attract more visitors and incentivise tourism related businesses to invest.

Tourism is one of the most significant segments of the local economy and commentators believe that our region is disproportionately affected by this uncompetitive tax rate. With some signs of weakening consumer demand, the sector and the region are amongst the worst affected by current austerity measures and decreasing disposable income.

There are currently 21 countries in the EU with a lower VAT rate for the hotel sector and 13 for the overall hospitality sector. A reduction in the rate of VAT in France for tourism related activities is reported to have led to the creation of 21,700 jobs and many argue that reducing the rate of VAT would actually increase the overall tax take for the exchequer.

We asked a group of local tourism leaders and advisors to share their views on the issue.

### The panel comprised:

Ian Stephens, Chief Executive of Cumbria Tourism

Mike Wilkinson, Chief Executive of Lancashire and Blackpool Tourism Board

Claire Smith, President of Stay Blackpool

Suzi Bunting, Chair of Bay Tourism.

### Here are the panel's opinions

Do you support the call for a reduction in the VAT rate for tourism related activities?

**Mike Wilkinson:** The Tourist Board certainly does support the British Hospitality Association's inspired national campaign to have the present VAT rate reduced to 5 per cent for visitor accommodation, entry to attractions and on out-of-home meals to make this country competitive with the rest of Europe. Although it often goes unnoticed, tourism is one of the few industries that employs people, creates wealth and sustains local communities.

**Ian Stephens:** The majority of tourism businesses that Cumbria Tourism is in contact with strongly support the call for reduced VAT rates for tourism businesses, therefore as an organisation representing and lobbying for the Cumbria tourism industry, we support the campaign for a lower VAT rate.

**Suzi Bunting:** Members of Bay Tourism Association support a plea to Government for a reduction in the rate of VAT for tourism

# a reduced rate of VAT for businesses?



Mike Wilkinson

sector businesses. Many tourism businesses wishing to invest or raise the quality of their service within the region are restricted in having monies for reinvestment into their premises or for customer training because of the amount of VAT they have to pay.

## Why should the tourism industry be treated differently to other sectors?

**Mike Wilkinson:** If the Prime Minister's ambition to make the UK a top 5 tourist destination worldwide and increase domestic tourism from 36 to 50 per cent of total tourism spend by UK residents, it has to be operating on a level playing field.

The rate of VAT in the UK is one of the most pressing issues facing the industry today, making UK tourism uncompetitive with most European countries, many of which impose vastly lower rates on accommodation. For instance, in Germany hotel rates are 7% against a standard VAT rate of 19%, in Spain it is 8% against a standard VAT rate of 18%, leaving the UK top of the league tables alongside Denmark and Slovenia. Clearly what works for these European countries, should work for the UK.

**Claire Smith:** Tourism and hospitality affects everyone. It's a huge umbrella covering so many types of business from global attractions like Merlin to little B&Bs. Tourism doesn't just mean holidays, it's about day trips, a visit somewhere. No other industry affects literally everyone. Visiting a free museum you inevitably spend money on something. Take a free walk in the Lakes and I'll bet you have a drink in a pub or a coffee somewhere – money exchanges hands.

No other sector covers so many businesses large and small and no other sector has the power to affect growth in the economy to the same extent and in such a short period of time.

## Do you think that the argument that the government will lose income in tax revenue is valid?

**Ian Stephens:** I'm firmly in the camp that that is of the opinion that the increase in economic activity will more than compensate for any loss in tax revenue.



Claire Smith

**Mike Wilkinson:** Bourne Leisure and Merlin Entertainments commissioned accountancy firm Deloitte to assess the potential impact of a cut in tourist VAT rates from 20% to 5% and the report spells out that a rate reduction would result in a VAT shortfall of just over £1.2 billion a year but claims the move would set off a 'virtuous growth cycle' which would see the Treasury recoup its investment within 3 years and benefit from a net gain of £2.6 billion over 10 years, as well as creating 78,000 jobs. Local tourism operators in Lancashire are still finding access to finance a real issue and need to be encouraged to invest in their businesses, which a VAT reduction could help incentivise in my view.

## What do you think the impact would be on the region if a reduction was brought in?

**Suzi Bunting:** If a reduction of VAT was brought in for tourism related businesses this would help to provide a better customer service, increase occupancy levels and also enable businesses to continue investing in

quality standards of their facilities enabling growth and may also see an increase of trade from the overseas market who currently don't view the UK as value for money because of the high costs incurred by staying visitors.

**Claire Smith:** Attractions would be more affordable, accommodation, eating and drinking – the whole Blackpool and Lancashire offer would be better value especially for families.

I've previously mentioned the stimulant for growth and job creation and with such poor statistics for employment, especially youth employment in the area then the arguments in favour of a reduction in VAT have got to be taken seriously especially as there are few other options being put forward as a catalyst.

**Ian Stephens:** It will make Cumbria a more affordable place to visit thus stimulating visits and stays. With Cumbria being within easy reach of millions of UK residents and the costs and inconvenience of overseas travel increasing, the county would undoubtedly see a mini boom creating the necessary wealth to further improve the visitor offer and create longer term and higher quality jobs in the tourism sector.

## Colin Johnson, Leisure and Tourism Director at Moore and Smalley concluded.

"It is clear that the leaders of the local tourism associations are in support of a reduction in the rate of VAT for tourism related activities, but it appears that The Government remains unconvinced of the economic arguments for supporting the action at this time. At a recent event in Cumbria, the Minister for Tourism, John Penrose MP conceded that The Treasury is yet to be convinced by the argument and that further evidence is needed to support the claim before it will be considered more fully. If you would like to register your support for the campaign that is being headed up by the British Hospitality Association please do so by e-mailing [vatcampaign@bha.org.uk](mailto:vatcampaign@bha.org.uk)."

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# Top five digital PR tips for hotels

Facebook. Twitter. Reviews. YouTube. And the rest. The internet and social media have transformed how hotels communicate with its customers. But tread carefully! Emma Booth, a digital PR specialist at Lancashire marketing communications consultancy, Freshfield, offers top five tips to make your social media strategy a winning one.

## 1. It's all about reputation

Customers have become 'citizen journalists' and like it or not, their opinions on websites such as Trip Advisor are determining which hotels are booked and which are binned. Many other travel booking websites have a ratings option which will affect your appeal to customers. Encourage happy customers to write about their experiences at your hotel.

## 2. Invest in getting it right

Listen to what your customers are saying online and make sure you have the resources in place to monitor mentions of your hotel or venue. There are a number of tools to aid monitoring online available at no cost such as; Google Alerts, Social Mention and Twitter Search. Remember social media isn't free, you will need to invest in getting it right, outsource your social media to the professionals or supply training for an in-house social media team.

## 3. Content is king

Social media is becoming a competitive market and hoteliers and hospitality venues using social media must place renewed emphasis on engaging content. Pumping out a bland news story on Twitter or Facebook will no longer satisfy your target audience. What's more, Facebook's recent changes to its platform include a tough algorithm which makes only the most engaging content appear in newsfeed and decreases the prominence of those which are not. This means that if posts or images are not commented on, liked or shared they may go completely unnoticed to those fans you've managed to conjure up over time.

## 4. Incentivise people

Social media postings should give fans and followers an incentive to interact. Businesses which offer regular competitions, reward points for advocates online or easy ways of checking-in are giving new customers a reason to engage and regular guests a reason to come back.

## 5. Have a crisis plan

Bad news spreads faster than ever before. Instant and irrevocable communications are vital in preventing a social media storm in any emerging crisis. Not only does

this ensure you are tackling a tarnished reputation but it demonstrates that you make customer service and swift response a priority.

If the crisis situation is caused by an angry customer with a lot of influence, admit fault, attack it head on and try to turn a negative into a positive as quickly as possible.

Make sure that everyone involved in communications, from the social media team to your receptionist share a consistent message in a crisis.

## Win a free social media training workshop for two people

Simply email your details to [hello@freshfield.com](mailto:hello@freshfield.com) and we'll pick a winner from a draw. The social media training session will last two hours and take place at Freshfield's offices in Preston.

Freshfield offers bespoke training to hotels on digital PR and social media. To enquire about our services, please call Emma Booth or Simon Turner on 01772 888400 or [emma@freshfield.com](mailto:emma@freshfield.com) / [simon@freshfield.com](mailto:simon@freshfield.com)

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