

How Good Are You at Managing Profitability? In 2009, Operators Look to Flow-Through Reporting for Profitability Analysis

Aptech spotlights key measurement tool to build stronger managers, benefit owners and investors

March 2009 – Flow-through reporting is an established but subtle friend to hotel operators, owners and investors. It measures the variance between revenue and gross operating profit (GOP) and today's innovative operators have a flow-through number on the front of their P&L. Although it is not as discussed as RevPAR or ADR, flow-through in 2009 is the spotlight metric for hotel management and operations because it indicates the profitability of departments, properties, and chains.

“The concept of using flow-through to evaluate financial performance has been around for years; we use it to see how well our property teams manage expenses,” says Joseph S. Bello, CHA, vice president, asset management, Inland American Lodging Advisors, Inc. Inland American Lodging Advisors (IALA) oversees the management of 103 properties owned by Inland American Lodging Corporation.

Essential management tool has its day in the sun

“Flow-through is a simple measurement. If a property earns \$100K revenue over budget and its GOP is \$70K over budget, it has a 70 percent flow-through to the bottom line,” explains Bello. If the revenue overage comes from higher ADR, almost all of it should flow to the bottom line. The flow-through will be less if the additional \$100K is occupancy driven because of increased variable expenses for housekeeping, utilities and other factors. But in a cycle of budget shortfalls like we have today, flow-through analysis becomes an essential management tool.

“It could be called ‘save-through’ if a property is \$100K under budget,” said Bello. “If our managers capture half the loss in the variable expense categories the GOP should only be \$50K below budget. When I see a flow-through of less than 50 percent on either positive or negative revenue at any of our properties I stop and look more closely at the numbers to learn how we can capture more profit.” Until recently, IALA's two full time analysts manually consolidated the various managers' financial statements for the Asset Management Team.

“We just implemented a hospitality Business Intelligence (BI) system called Execuvue® from Aptech Computer Systems that enables our team to focus on analysis and puts the highest, lowest and median performance properties on one page to identify the properties that require additional focus. The system also gives us a standard P&L that lets our team and our company's senior leadership compare our different operators' competency at preserving cash flow. This is a great tool for maximizing profitability for our investors.” IALA puts all of its operators – Marriott, Hilton, IHG, Hyatt and others – on one flow-through page to see which ones are doing a better job of maximizing profitability. “This is where flow-through analysis pays off,” said Bello. Execuvue business intelligence is designed specifically for hotel operations and used by the largest hotel companies in the world. Aptech is the leading provider of hospitality BI and has implemented systems at over 2,500 properties.

Peabody manages profitability with flow-through

Peabody Hotel Group also looks very hard at flow-through analysis. “The most important question in the hospitality industry 2009 is ‘how good are you at managing profitability,’ and flow-through is the best tool to answer it,” said Warren Winslow, corporate controller for Peabody Hotels which operates three of its own branded properties and seven additional hotels with Hilton and IHG flags.

Peabody uses a standard performance report that focuses on each of its hotels and their departments to analyze flow-through and other metrics at the department level to draw uniform conclusions that are used to identify under-performing areas. “This process is much easier with our Execuvue BI tool that lets us look at the same month in prior years, or any period of time of our choosing, and assess why the flow-through numbers vary. The BI tool allows us to establish many different dimensions within its software to enable us to analyze the differences using multiple approaches, i.e. a side -by-side of all hotels by department and by month,” Winslow said.

‘Why’ behind the numbers

“Flow-through gives us the ‘why’ behind the numbers that are the foundation of performance and profitability,” noted Winslow. “The flow-through results are presented in both dollars and percentage since it is easier to pursue an improvement when it is expressed as a percentage.” Another reason Peabody analyzes performance by department is that it helps build a stronger set of professional managers who are conscious of how to take more revenue to the bottom line. “When your property teams are educated in how flow-through works they are better managers.”

“Aptech’s Execuvue BI is a big help because it was developed specifically for large hotel groups and automates the data gathering from all IALA’s properties,” said Bello. “With our property data gathering and report building computerized, our team is freed to focus on analyzing the results to maximize investor return.”

By Cam Troutman, director of sales for Aptech Computer Systems

Aptech Computer Systems



Aptech Computer Systems, Inc., based in Pittsburgh, Pennsylvania, leads the hospitality industry in leveraging change by valuing human relationships and applying technology to solve business problems for people.

Incorporated in 1970, Aptech is a financial and operations technology solutions and service company whose products include state-of-the-art back office, business intelligence and enterprise planning products: Profitvue®, Execuvue®, Webvue® and Targetvue. Over 2,500 properties, including very large chains, multiple-property management companies and single-site hotels, utilize Aptech solutions to understand their financial and operational data. By offering the hotel industry a solid resource of hospitality professionals, and through its proven ability to evolve technology offerings as the market dictates, Aptech is proud to have earned 100% customer loyalty.



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