

Lake District Hotel Survey Summer 2013



Produced by:

ArmstrongWatson[®]

Accountants & Financial Advisers

We have had a wonderful response to our hotel and guest accommodation survey and the information we have collected gives a valuable insight into the trading conditions and expectations of the Lake District hospitality industry.

The responses we received were from a broad range of hotels and guest accommodation ranging in size from four bedrooms to 50 bedrooms. This range of sizes means that we get a real cross-section of results across the Lake District sector as a whole. In order to provide greater meaning to the results we have separated the majority of them between hotels and guest accommodation. This is in recognition of the differing offerings and cost profiles provided by these two types of accommodation. Where possible, we have also included Armstrong Watson's 2012 benchmarking figures (covering hotels only) to allow for year-on-year comparative analysis and provide deeper insight into performance trends.

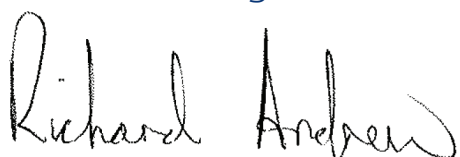
Armstrong Watson's Lake District hospitality surveys started from discussions with clients and contacts in the hotel industry, and during these difficult economic times, it's understandable that you too want to know how you are performing compared to your competition for a number of reasons; firstly it is reassuring to know that everyone else is "in the same boat" and see that other hotels are facing the same difficulties as you.

Secondly, it's vital that the information you have about the industry is up to date so that you can react quickly and take advantage of any opportunities. Questions such as "Is my occupancy rate too low?", "Should I be discounting my room rate to increase occupancy?" and "Am I paying too much in salaries?" are common and we hope this survey will help you to answer these questions and provide food for thought when making strategic decisions.

In this report we have provided the results of our most recent survey, together with our analysis and interpretation to pull out the key findings and highlight any opportunities to improve your performance. At the end of the survey there is a summary and a couple of key points to bear in mind.

Obviously, your business is unique and these statistics should only be used as a guide. If you would like to discuss your business in more detail or would like to talk through how you could improve the performance of your business, we would be more than happy to discuss your plans with you.

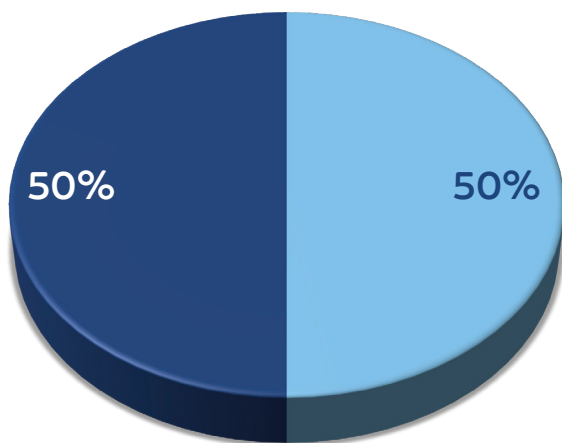
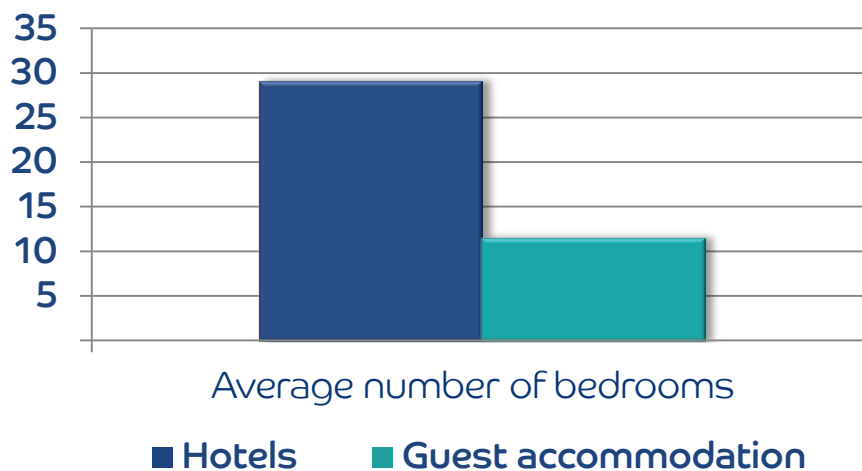
We hope you find this report interesting, and look forward to your ongoing support in future surveys of the industry in the Lake District.

A handwritten signature in black ink that reads "Richard Andrew". The signature is fluid and cursive, with the first name "Richard" and the last name "Andrew" clearly distinguishable.

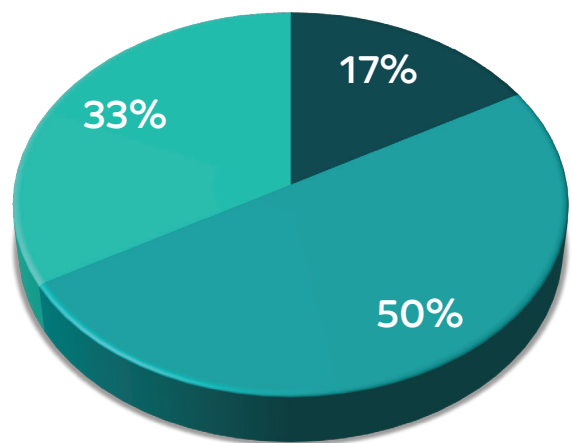
Richard Andrew

You and Your Hotel

Of the hotels that responded to the survey, half of them had a 3 star rating from Visit England, with the other half having a 4 star rating. Of the guest accommodation that responded, the majority were 4 star or 5 star rated. The Lake District is well known for high quality hospitality businesses and it's clear that this reputation is well deserved.



- 3 Star (50%)
- 4 Star (50%)



- 3 Star (17%)
- 4 Star (50%)
- 5 Star (33%)

Occupancy Rates

The graph below shows the actual occupancy rates for June, together with the forward booked occupancy rates for July and August. You would expect the occupancy rates in the height of the season to be strong, but the forward bookings for July and August are particularly good at 83% and 78% respectively. These occupancy rates will only increase throughout the season with last minute bookings... especially if we are lucky enough to get some more good weather throughout August! We must remember that the Olympics had a significant negative effect on bookings when we compare with last year, leading many hotels to reduce their prices in a bid to increase occupancy.

The Cumbria Tourism statistics include results from across Cumbria and show a substantial difference between the county wide figures and the Lake District specific data, demonstrating how far above the average the Lake District is performing and showing the strength of the Lakes compared to neighbouring areas. According to Visit Britain statistics, the average occupancy rate for the UK is normally in the region of 67%. The fact that average occupancy rate is so much higher in the Lakes shows what a sought after destination we work in.

Marketing activities should capitalise on this geographic feature, particularly online to ensure your business is making the most from its advantageous location.



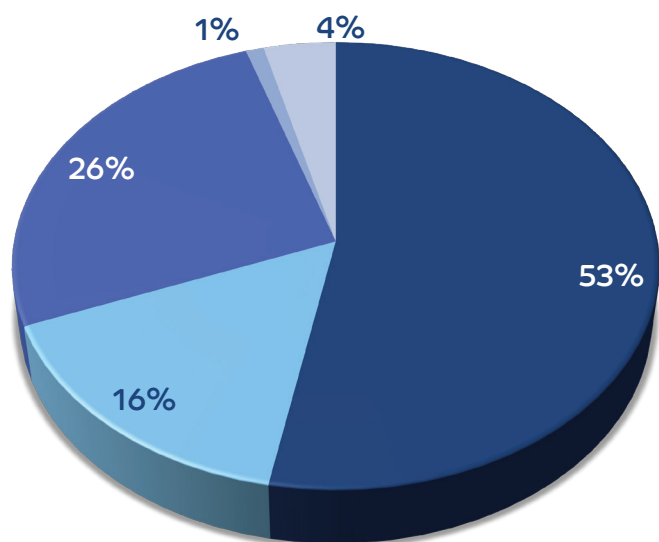
Sales

Secondary sales are a vital source of income for hotels in the Lakes, with wet and dry sales amounting to 42% of their total income, just 12% less than their total income from accommodation.

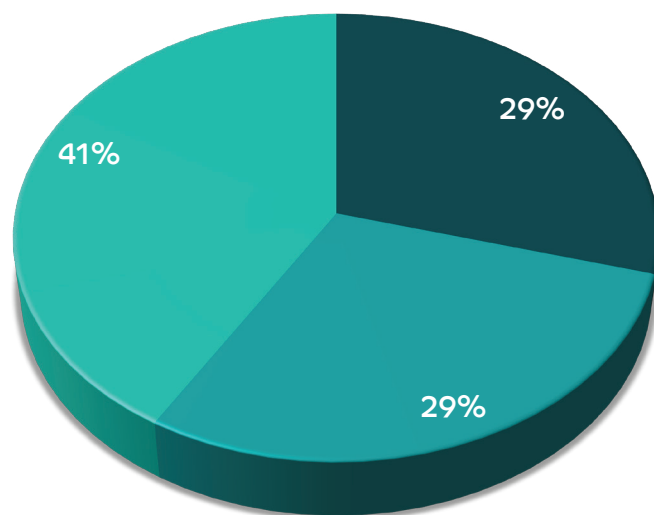
For guest accommodation, the total income from wet and dry sales amounts to 70%, dwarfing the income from accommodation. Many establishments classified as guest accommodation are well known destinations for food and drinks and their accommodation can be seen as a secondary sale.

Hotels may find that special offers on food and drink targeted at accommodation guests enables them to achieve a higher overall revenue from their guests during their stay.

Conversely, those establishments that are well known destinations for food and drinks could look to achieve a greater revenue by increasing their occupancy levels through offers and marketing activities on their room rates. If occupancy levels are already high then consideration should be given to increasing room prices and possibly investing in upgrading rooms to achieve the next tier in room pricing.



- Accommodation (53%)
- Wet (16%)
- Dry (26%)
- Functions (1%)
- Other (4%)



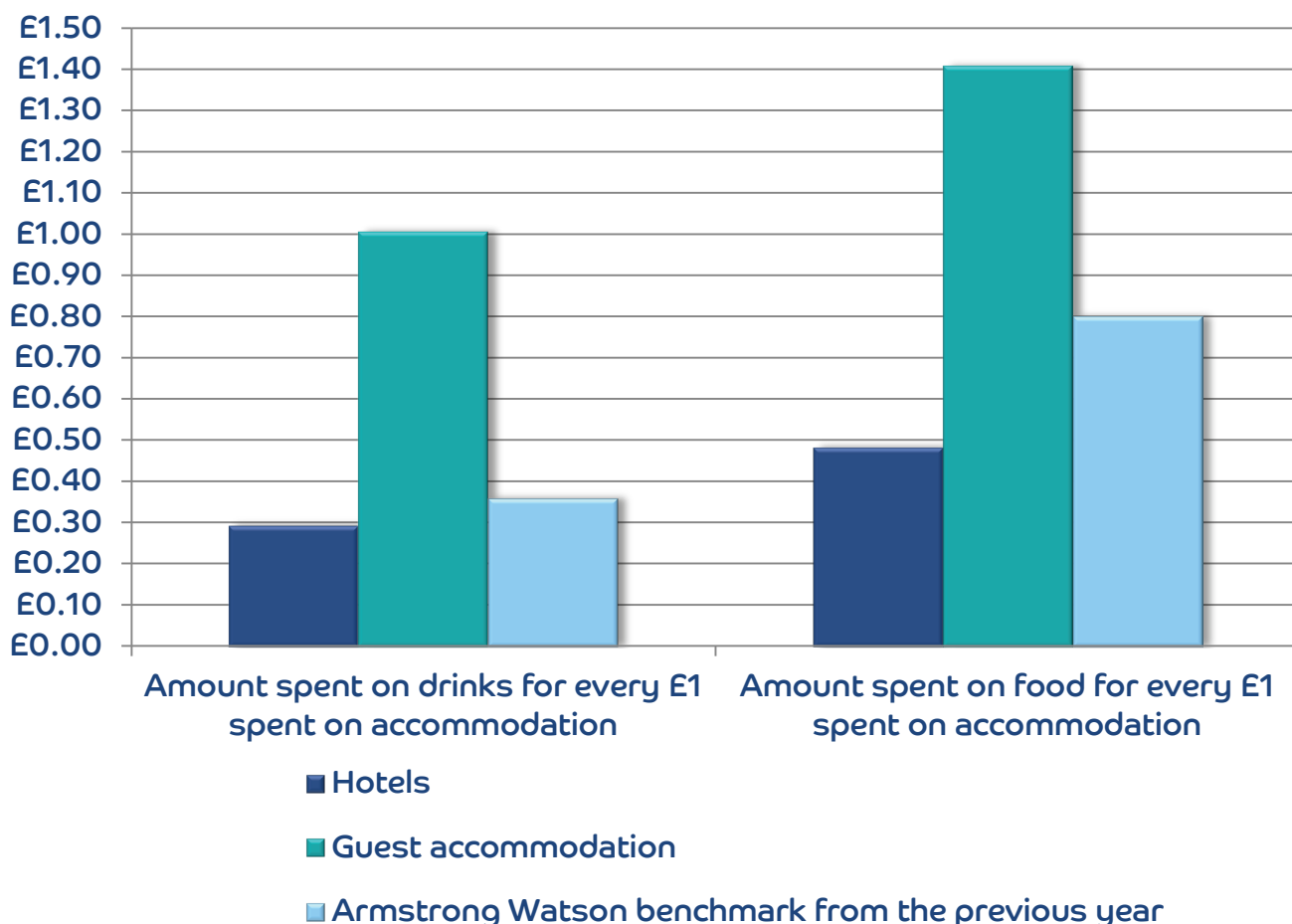
- Accommodation (29%)
- Wet (29%)
- Dry (41%)

Sales

In hotels, our analysis shows that for every £1 spent on accommodation, guests are spending another 77p on food and drink. For guest accommodation this rises to an impressive £2.42, reinforcing the secondary sales position that accommodation plays in establishments with strong reputations for food and drink.

Food and drink sales have suffered in recent years due to the economic climate and falling levels of disposable income. Many guests are eating-out at cheaper venues or even bringing take-away food back to their rooms.

When compared with last year's results, spend on food and drink as a proportion of the accommodation income has declined. Encouraging guests to spend money on food and drink is important and we have seen some evidence of hotels employing offers and discounts to successfully keep guests in the hotel for the evening. Obviously, these incentives have an impact on the margin achieved on wet and dry sales, but could be a useful tool to boost your bottom line or encourage repeat custom at a potentially higher margin in the future.



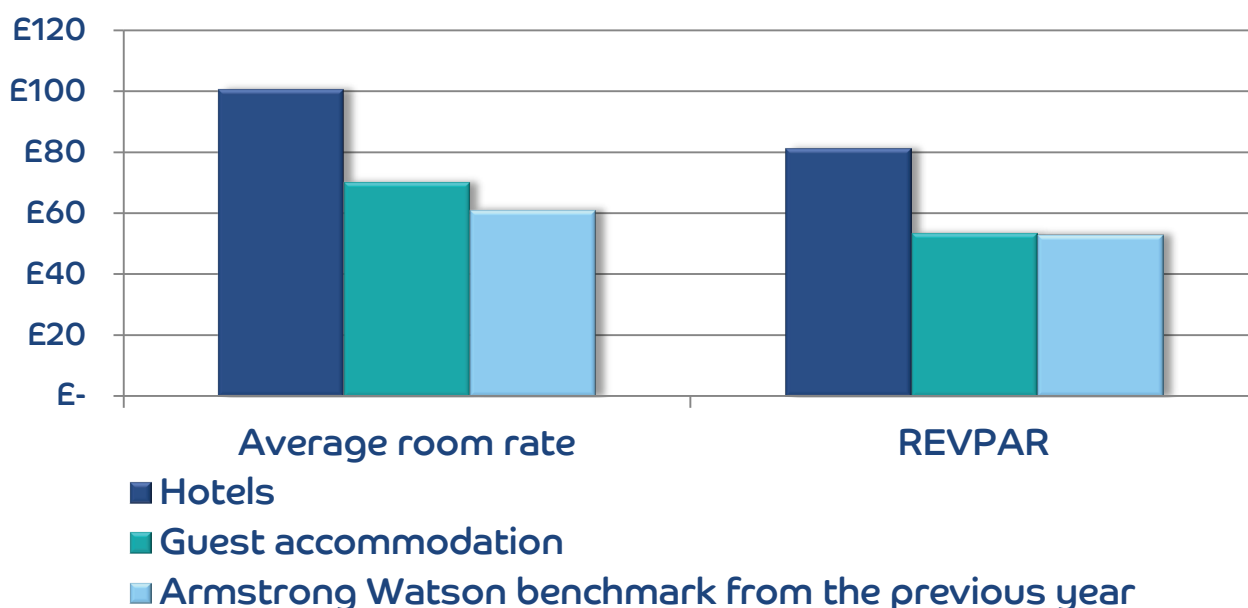
Sales

Occupancy is an important performance indicator, but it should always be considered together with the rate paid for each room. As an example, if your occupancy level is slightly lower than last year, but you have achieved a significantly higher average room rate, then you will have made more money (and had to look after less guests!).

Understanding the relationship between your occupancy rate and average room rate is vital. Pricing strategies for rooms vary significantly across hotels and guest accommodation. Some hoteliers fix their rate, some change their rate according to a time line and the number of available rooms, some provide early booking discounted rates to increase cash flow. Knowing your strategy and equally knowing when to change it is crucial.

The graph below shows the average rate per room. The average room rate for hotels in June was £101. As described earlier in this report, the average room rate last year suffered when hoteliers reduced their rates in order to attract visitors around the time of the Olympics. Similarly, our Summer (or lack of it) last year did not help to bring visitors to the area and this also led to reduced room rates. It is an encouraging sign to see the average room rate at these levels.

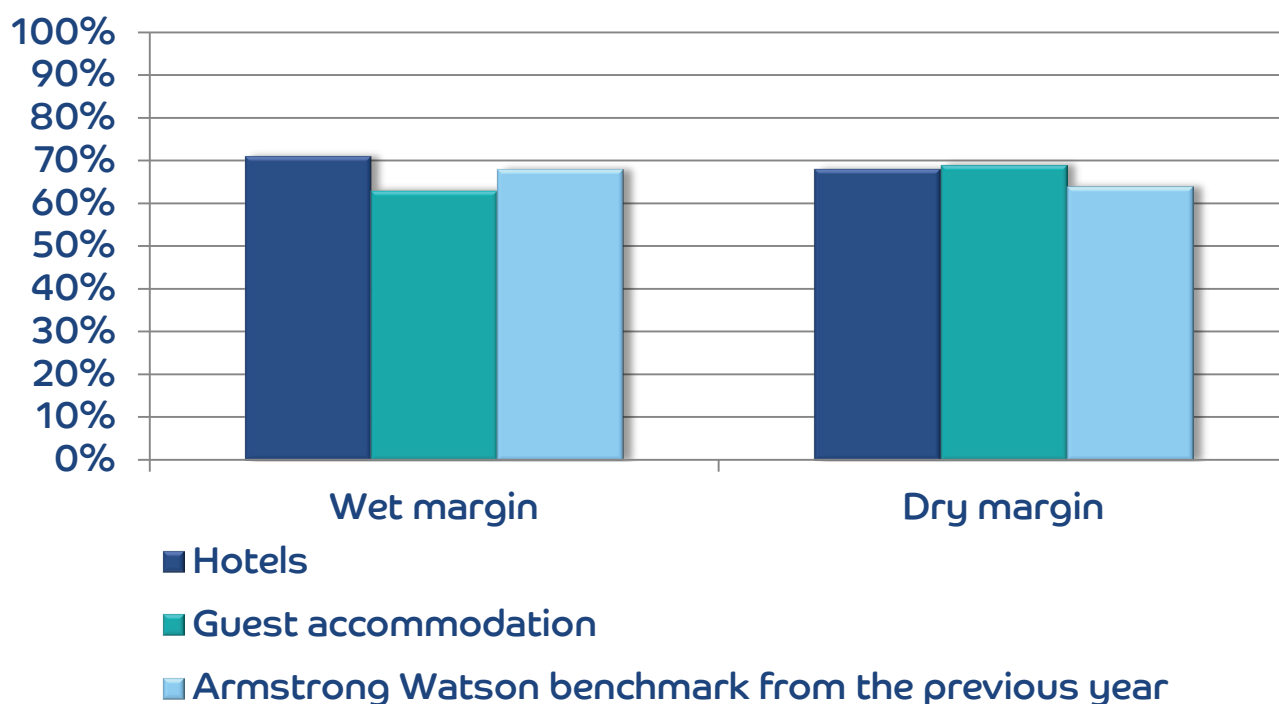
REVPAR (revenue per available room) is a measure which a lot of hotels employ. It is similar to the average room rate, but instead compares the revenue from room sales with all of your available rooms. Effectively this shows how much each room is generating in revenue, whether it is occupied or not. Again, the REVPAR shows a marked increase on last year.



Margin

We found that wet and dry margins achieved during June are slightly higher than last year as the steady increases in food and drink prices have been passed onto guests. Offers and discounting food and drink may help to bring guests into the bar or restaurant of an evening, and while this will reduce the overall margin, a sale at a lower margin will be better than no sale at all.

The margins achieved on food and drink sales are very strong when compared with the national average which varies between 5% - 10% lower than for the Lakes. The Lake District has a strong reputation for quality food and drink, and this should be pushed in marketing activities. It also shows there is scope to reduce prices in order to potentially achieve greater sales and profits overall and some level of competitive advantage.

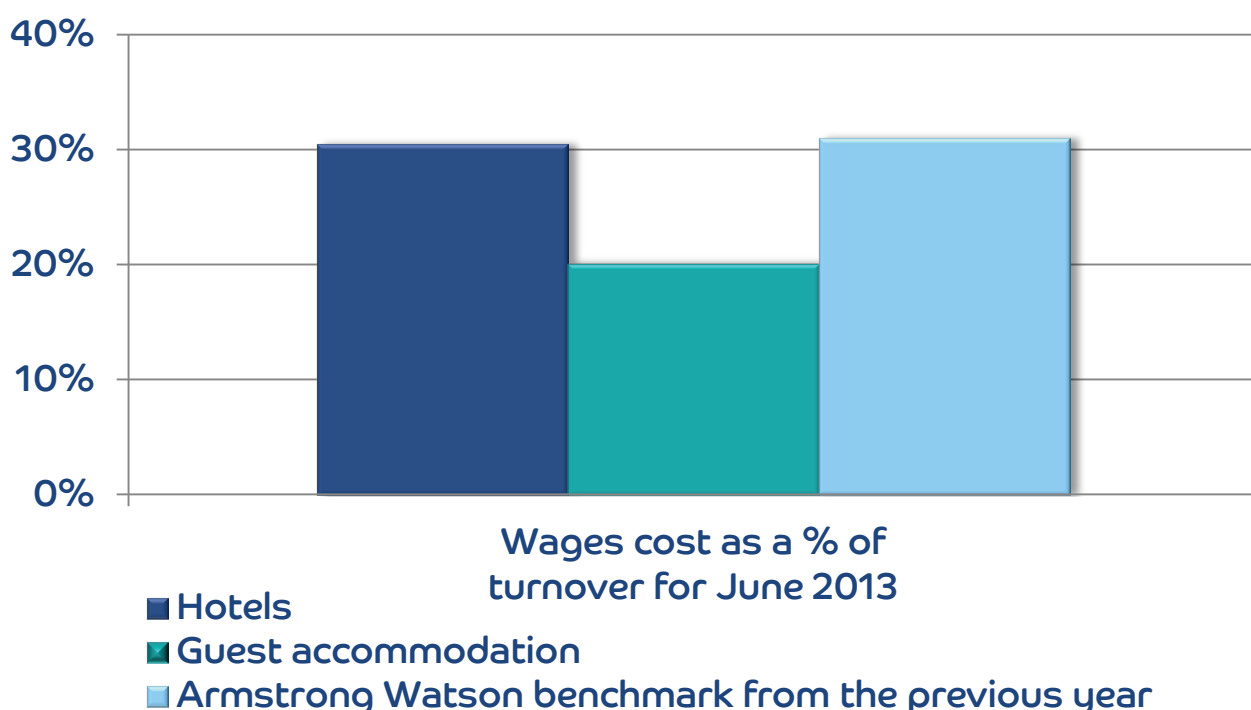


Expenses

The wages costs as a proportion of sales has stayed very consistent with the previous year at just over 30%. Hotels are keeping their wage rates and staffing levels under control, and the staffing ratio for guest accommodation is significantly lower thanks to the owners representing a significant proportion of the workforce.

Over recent years, foreign workers have played an important part in staffing levels, reducing staff turnover and controlling wages rates across the majority of hotels and guest accommodation.

Remember that the National Minimum Wage is due to increase on 1 October 2013 and this increase in wages should be borne in mind when considering room rates for the forthcoming year.



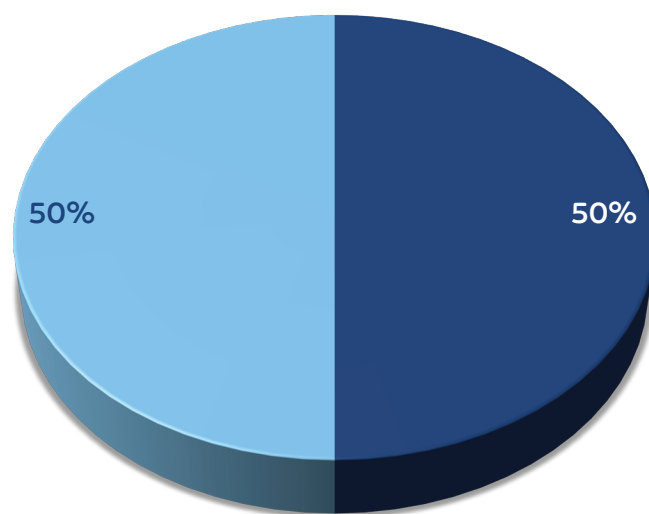
Minimum Wage Rates from 1 October 2013	
Staff	Hourly Rate
Adult (21+)	£6.31
18 - 20 years old	£5.03
16 - 17 years old	£3.72
Apprentice	£2.68

Expectations

Respondents expect this year to be as successful or more successful than last year, mainly due to the amount of rain we had last year during the height of the season. The Olympics also had a significant negative effect on tourism in the area by concentrating holiday makers towards the capital for the games. No respondents thought this year would be less successful than last year, signalling a lot of positivity in the industry.

Many hoteliers are feeling cautiously optimistic that the current levels of positive sentiment regarding the country, both from natives and overseas markets will help them to boost their business during the Summer months.

As a great proportion of attractions in the Lakes tend to be outdoors thanks to the beautiful landscapes, wildlife and terrain, this can at times be a disadvantage when compared to foreign holiday destinations thanks to the unpredictability of the Great British weather! To try and counteract this, investment in indoor activities, and publicising indoor activities from your local area through your website and marketing activities may help to encourage guests to book with you as their holiday relies less heavily on good weather.



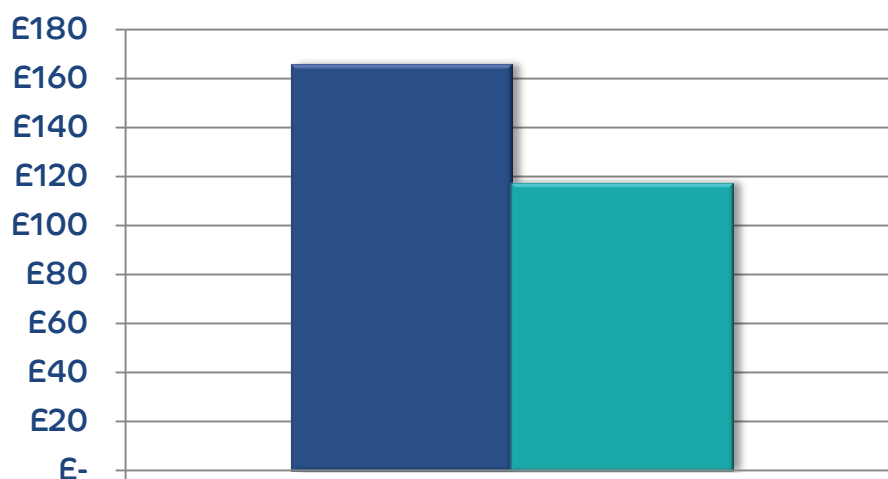
■ It will be more successful for my hotel as Summer 2012 (A1) (50%)

■ It will be about the same for my hotel as Summer 2012 (A3) (50%)

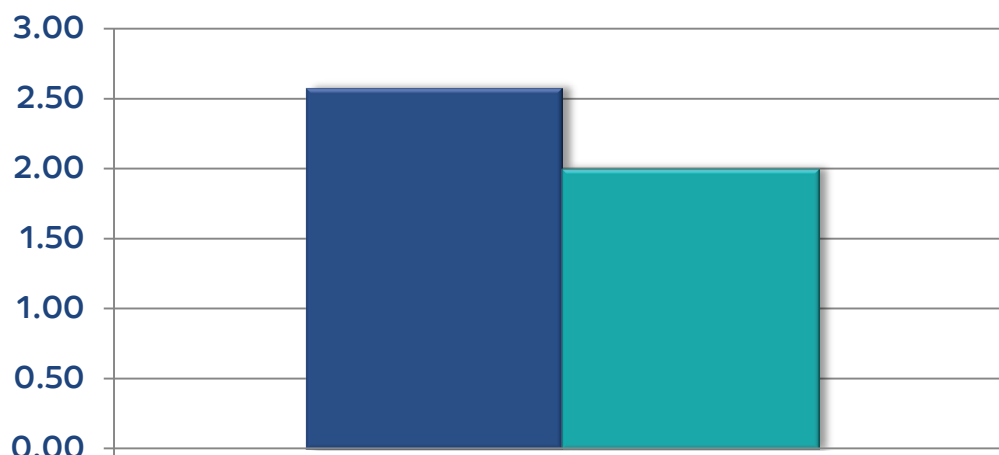
Overseas Visitors

Our analysis shows that overseas visitors spend per guest is on average £166 in hotels and £118 in guest accommodation. These guests generally spend two nights in the Lake District, which is normally part of a tour around England. Given that the spend per guest is good, many hotels are aiming to get their overseas visitors to stay with them for longer through offers and discounts.

Targeting overseas visitors through travel agencies and organisations may result in reduced margins due to commission, but potentially higher occupancy rates and less admin time for these high spending guests.



What was the average spend per guest for overseas visitors during June 2013?



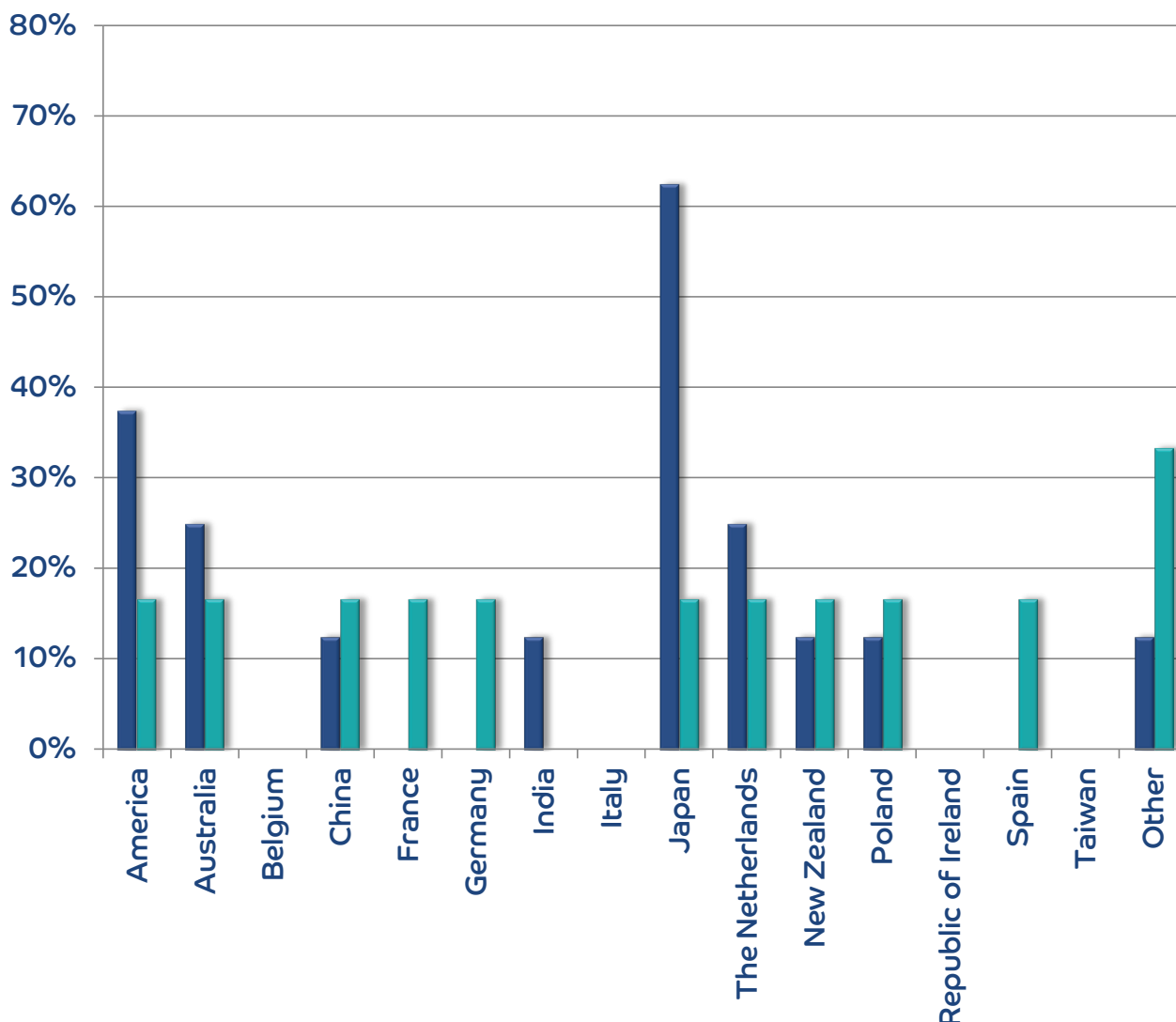
How many nights on average did overseas visitors stay for during June 2013?

Overseas Visitors

We found that an incredible 63% of hotels have recently had visitors from Japan, making up a significant proportion of the visitors to the area. In stark contrast to this, just 17% of guest accommodation reported recently having Japanese guests, highlighting a potential growth area for guest houses to explore.

Visitors from America, Australia, China and The Netherlands also represent a growing opportunity and should be catered for accordingly. Providing useful leaflets and magazines in the languages your guests speak, and relevant food for your international guests may be a small gesture that ensures they not only stay with you on future visits but tell their friends and family back home about the excellent service they received with you.

Many hotels and guest houses have two versions of their websites – one in English and one in Japanese. As the wealth within China continues to grow, hotels are keen to target these visitors and several hotels already provide a Chinese translation of their website to encourage visitors from this country. This service can be built in to your website, often for free and can allow your hotel to stand out from the crowd.



Summary

Last summer was a difficult year for all hotels and guest houses due to the Olympics and the lack of a summer. All signs so far indicate that this summer should prove to be more profitable than last year. The forward booking occupancy rates appear to be strong, margins on wet and dry sales are being maintained and staff costs are being kept under control. We'll all be hoping for some more good weather throughout August to help bring visitors (and paying guests) to the area.

Here are a few additional points to bear in mind;

- If you have any cancellations where you have already taken a non-refundable deposit, then you do not need to pay VAT over on this amount. The non-refunded deposit is not VATable because no service has been provided
- Although some hotels still charge for Wi-fi, many hoteliers believe that it should be offered free of charge to all guests, encouraging them to use their smartphones to take pictures of their room, the hotel and their food, update their status on Facebook with your hotel name and tweet about the hotel. Offering free Wi-fi, if you don't already, could help your guests to do your social media advertising for you
- Giving some thought to which countries may prove to be growth areas for overseas visitors would be a good idea as part of your medium term sales strategy and cater for them accordingly
- Consider what offers and discounts you could provide to encourage additional food and drink sales.

The next survey will be run during September, remember to visit

www.armstrongwatson.co.uk/lakedistricthotels to keep up to date with the latest on the industry in the Lake District ,or get in touch if you'd like a bespoke report for your hotel.

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