To Close or Not to Close My Hotel: How to Do the Math

The Hospitality Industry is in the middle of a global health crisis, and it's creating a global financial crisis. While many hotels have already made their decisions regarding remaining open or closed, today's episode is to help those that may still be struggling with their decision.

Supplies you will need for today's exercise:

- A copy of your P&L statement for 2019, or a rolling statement 12-month statement through February
- Current balance of reserve cash that you may draw on
- Current CPOR

Terms to know

Daily Nut: How much money you need to be bringing in each day in order to cover your fixed expenses.

CPOR (cost per occupied room): Calculate average variable costs related to occupying a room such as housekeeping staffing and supplies, front office staff, etc, divided by the number of room nights over a period of time.

Daily Nut Calculation

Use a copy of your 2019 P&L statement, or you can also use a 12-month rolling statement through February if you have that available.

STEP 1: Identify your fixed expenses

These might include a mortgage payment, utilities, and the cost of having a basic staffing model.

STEP 2: Find fixed monthly and daily amount

Divide by 12 and by 365.

STEP 3: Refigure fixed costs if some can be eliminated by closing for a period of time

Consider what would still be owed monthly if the hotel were closed.

STEP 4: Find your Gross Profit percentage

Take the total revenue for 12 months, less acquisitions costs or any other costs of goods sold, divided back into the total revenue. Most P&L's will already have this calculation in the document.

STEP 5: Daily nut formula

Divide the fixed cost number by the gross profit percentage. So, for example, if your fixed cost was $5,000/day, and your Gross profit percentage is 25%, divide $5,000 by 0.25 to get a total of $20,000.

CPOR Calculation

STEP 1:

Add up variable costs related to occupying a room over the last 12 months. Divide that total by the total room nights occupied in the last 12 months.

Bare bones model

Add up estimated occupancy costs for each room, then divide that total by estimated rooms occupied.

STEP 2: Create the most realistic forecast possible.

Determining your final numbers

- Take the average daily revenue from the forecast over the next 30 days and subtract your CPOR calculation multiplied by the average nightly rooms occupied from your forecast.
- Subtract this number from the average daily revenue, to remove costs related to occupancy.
- Subtract from that result your average daily fixed costs or daily nut from the beginning of the exercise.

For hotels that aren't making enough daily to cover expenses:

- Multiply average monthly fixed costs by 6 months.
- Take your total cash reserves and subtract your result from that number.
- Take what is left of cash reserves as a total and divide it by your negative daily number to find out the estimated number of days you can remain open.

We hope this episode has helped to add some logic and clarity to some of the very difficult decisions that everyone will have to make in the coming days.

Links to helpful information on loans and other assistance mentioned on the podcast.

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Small Business Owner's Guide to the CARES Act

Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Here's what the historic 2-trillion coronavirus stimulus package will do to help small businesses

Coronavirus Stimulus Package Questions and Answers

Hotel News Now Article: how to decide whether to keep your hotel open from an experience asset manager's point of view

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