

How to estimate Return on Investment (RoI) for a Cloud PMS

— NITESOFT SOLUTIONS —



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HOW TO ESTIMATE THE PROFITABILITY ON A CLOUD PMS?


The main purpose of a property management system (PMS) is to help to the hotelier operate and manage a property in a efficient and guest friendly way.

The PMS is often referred to as the heart of a hotels IT-infrastructure, which is of course is associated with an important investment decision.

In terms of investment, the main goal is the generate RoI (Return on Investment), which is a simple measurement describing how much money you will get back on your initial investment.

This guide will tell you more how you can analyze the PMS decision from a financial point of view.





WHAT PARAMETERS TO ANALYZE?

In order to analyze the RoI for a cloud PMS we need to define relevant parameters to look for.

Switching to a cloud PMS will bring many benefits, although some benefits are difficult to measure in terms of money. Hence, it is necessary to distinguish between soft and hard values. Soft values refers to benefits that are harder to calculate, while hard values refers to benefits that are easy calculated.

SOFT VALUES VS. HARD VALUES

1. Flexibility

The cloud PMS is using the internet to store data. This enables hotel staff to access data from any remote location without a software installation. The system is therefore connecting the staff in real-time and making emails, SMS and internal phone calls unnecessary.

2. Streamline operations

Thanks to the cloud PMS guests and staff can interact via the system, even when they are not at the hotel. With capabilities such as self-checkin/out guests can handle themselves, while staff spends more time on improving guest satisfaction instead of operating inefficient IT-systems.

3. Automatic software updates

The cloud PMS is constantly progressing, with new updates and capabilities delivered to users instantly - and normally at no charge. The PMS vendor is accordingly providing the hotel with latest technology that helps the hotel to stay ahead of competition.

1. Releases revenue potential

With a seamless integrated booking engine on the property's own website, the cloud PMS enables to attract and convert more direct bookings.

2. Reduces costs

The cloud PMS applies a subscription-pricing model, meaning that properties normally pay a low implementation fee and a license fee as they go. There are no costs of purchasing and maintaining servers. Updates of the system is a continuous process and therefore included in the license fee.

3. Seamless integrations

Through third party integrations with distribution channels, the cloud PMS simplifies online distribution which releases new revenue potential.

CALCULATION EXAMPLE

In a next step we want to concretize how the hard values (revenue potential, reduce cost & seamless integrations) of a cloud PMS will create greater value than the associate cost of the PMS. We start by make realistic assumptions, these assumptions are based on case studies on Nitesoft customers:

1. Releases revenue potential

Due to the new and optimized booking engine, the property is experiencing an increase of direct bookings by 5 %. Therefore, 75 new bookings are being converted through the properties own website, resulting in lower third party commission, stronger cashflow and reduced no-show ratio.

Estimated revenue gain: (new bookings/monthly * average daily rate * commission rate)= 75*110*0,17= 1402,5 €

2. Reduces costs

Moving to the cloud means no need for physical servers or costly version updates. This reduces the properties monthly costs.

Estimated cost drop: (monthly cost of server + 10 year average of version updates and add on modules)= 80 + 90 = 170 €

3. Seamless integrations

The cloud PMS is built on a modern infrastructure enabling faster and more robust connections with third parties. This enables the hotel to be more visible online which boost occupancy by 2 %.

Estimated increase in revenue: (occupancy percentage increase * new monthly bookings * average daily rate)= 0,02*1530*110 = 3,366 €

Assumptions	
Units	100
Occupancy	50 %
New monthly bookings	1 500
Average daily rate	110 €
Average comission payed to third party	17 %
Monthly cost of server for old PMS/monthly	80 €
Cost of version updates and add on modules/monthly	90 €
Direct bookings increase by	5 %
Occupancy increase by	2 %
Estimated cost of PMS/monthly	900 €

CALCULATION RESULT

Assumptions	
Units	100
Occupancy	50 %
New monthly bookings	1 500
Average daily rate	110 €
Average comission payed to third party	17 %
Monthly cost of server for old PMS/monthly	80 €

Assume that direct bookings increase by:	New direct bookings/ monthly	Revenue change
5 %	75	1402 €

Assume: occupancy increase by	New bookings/monthly	Revenue change incl. commission
2 %	30	3 300 €

Assumptions	Savings
Monthly server cost for 100 unit hotel/monthly	80 €
No need of costly version updates/monthly	110 €
Total cost of booking manager/hourly	170 €

Revenue increase	Reduced costs	EstimatedPMS cost	Monthly profitability change
4 702 €	170 €	900 €	3 972 €



WHAT CONCLUSIONS CAN WE DRAW

In the scenario analysis we demonstrated that small changes on key parameters have large financial impact. We based the assumptions on Nitesoft "basic" performing customers in terms of "cloud based effect".

We then adjusted the parameters downwards in order to make the scenario even more conservative, and still concluded that RoI was positive. By adding the sum of the hard values, we receive a monthly profitability change of 3,972 € for a standard 100 room property. This figure only takes into account 3 pre-defined parameters.

Hence, other important parameters such as time savings, higher guest satisfaction, happier staff etc. is not taking into account in these calculations. From an investment perspective it is quite easy to see that the sooner the shift from server-based to cloud-based takes places, the faster the property starts earning more money.

We have experienced that despite the promising financial figures, many properties tend to stay with outdated software that hamper their potential business success. We think that this is originating from that most hoteliers or property owners think that it is almost impossible to go from one system to another. That the switching process will take months and that their staff won't get up to speed in the new system.

Thanks to progressing technology, the switch can take place within a business week. We strongly recommend you to read our case study "Queen's Hotel - a case study". This case analyzes the steps of "the switch" and the financial effects one year after the cloud system was launched.



NITESOFT SOLUTIONS

IN ONE MINUTE

Nitesoft is a leading cloud based management platform for hotels, hotel chains and serviced apartments geared for reservations on the Web, flexible payment methods, guest check in self service, and many other features the market trends require.

Nitesoft PMS is provided on a Software as a Service (SaaS) basis and comprises features and functions for improved level of automation and daily operations. Nitesoft has been designed in close partnership with leading hotels with high level of automated processes and at the forefront of hotel concepts. The platform is intuitive, built on the latest Microsoft technical platform, extendable and scalable and quick to set up to a new customer.

Do you want to get in contact with us?

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