

# Margins Matter

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# Introduction

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## Thank You

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## Session Provided

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## Questions at the End

# Ben Edwards

- 22+ years in the Vacation Rental Industry
- Owned/Operated more than 15 VR companies
- Operated in more than 200 resort destinations
- Operated companies as large as 2,400 properties
- Involved in 100+ successful transactions
- VRMA, Past President, Board Member
- Owner, Weatherby Consulting, LLC

# Introduction

- Pandemic
- Pent Up Demand
- Increased Occupancy
- Increased ADR
- Explosive Revenue Growth

# Introduction *continued*

- We Look Smart, Right? \$\$\$\$
- How Smart?
  - 100% plus Increase
  - 50% to 100%
  - Marginal – up to 50%
- If You're in the Lower Half (50%), its Time to Review & Rethink Your Business
- If You've Seen a Marginal Increase in Profit, it May be Time to Exit

## What Is Profit Margin?

- Profit margin gauges the level at which a company or a business activity makes money
- It represents what percentage of sales revenue that has turned into profits

## Calculating Profit Margin

- Profit as a Percentage of Gross Rental Revenue
- $\$100\text{k NOI} / \$1\text{m GRR} = 10\%$
- All Business Activities should have Margin

## Why do Margins Matter?

- The Music will Stop
  - 2022 Tax Considerations
  - Inflation and future Recession
- Going Concern / Sustainability
- Employees / Stakeholders
- Profit Determines how Successful Your Exit will be....



# Profit Margins & the Sale of Your Business

- Business Sale
  - Sold on a Multiple of Earnings
    - 4 to 5
  - Earnings must Reviewed & Adjusted
  - Sustainable Profits are Paramount to a Successful Sale

# Profit Margin

- Meaningful Profit
- Goal is a Minimum of 10%
- Max / Best in Class is 20%+
- Be sure to Adjust Where Necessary
- Two Ways to Increase Margin
  - Increase Revenue
  - Decrease Expenses

# Margin Analysis

- Revenue
  - Management Commissions are Market Driven
  - Service Fees: All Non-Management Fee Revenue
  - Service Fee Margins
    - Average 40% of GRR
    - High 75% of GRR
  - Consider Varied Fee Structures
  - Review the Market

# Margin Analysis

- Expenses
  - Vary by Market and Business Model
  - Important to Operate, Progressively within Market
  - Number One Expense: Payroll
  - Outsourcing is Most Efficient
  - Payroll Margins
    - Average 10% of GRR
    - Best in Class sub 8%
  - Further Reductions Could Adversely Effect Quality / Service Scores

# Margin Analysis

- Expenses
  - Marketing
    - Vary by Market
    - Could vary based upon Distribution Fees
  - Marketing Margins
    - Low - 1% of GRR
    - High – 3% of GRR
- Many VRMC's are Reducing Marketing Spend through the Pandemic
- Guerilla Strategies for Guests

## Margin Analysis

- Other Expenses
  - Vary by Market
- Before Adding Add'l Expense
  - Is this Necessary
  - Invest / Build for Growth
  - For Profit
  - Be Aware of the Bottom Line

## Margin Analysis

- Formal Financial Process
- Consistent & Timely Financial Reports
- Advance Deposits & Cash MUST be Regularly Reconciled
- If Software or Staff Present Hurdles – Find New
- Spend time Reviewing & Know Your Business

# Margin Matters

- In Closing
  - Run Your Business Like a Business
  - Focus on Quality & Service
  - Be More than a Booking Agent
  - Be Intentional – Financially Managing the Business
  - Produce a Meaningful Profit
  - Sustainable / Long-Standing Business



# Weatherby Consulting - Suite of Services

1

## Consulting

- General VR business consulting/Profitability Consulting
- Operational reviews

2

## Transaction Advisory Services

- Purchase & Sale of Vacation Rental Companies

3

## Accounting Services

- Full service to limited service
- Financial Statement creation
- Accounting projects and consulting

# Weatherby

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