

# 5 KPIs every travel business should be monitoring

# TTC



Access to good quality management information is vital for a well-run business. But often we meet travel companies who are tracking little more than their revenue or profit.

Revenue and profit are essential for measuring performance. But they only tell half the story. What's more, they are lagging indicators of performance. In other words, they are the downstream results, driven by your activities, operations and efforts taking place upstream. If you get those right, revenue and profit will take care of themselves.

Tracking additional Key Performance Indicators (KPIs) can help you to understand the key drivers of your business and make more informed decisions.

When helping our clients design and build management reporting decks, we always recommend identifying and focussing on a small number of relevant KPIs. Tracking them by brand or sales channel and benchmarking against competitors will also provide the most useful insights. Doing this will help you understand what is driving your business and performance at a granular level.

**Scroll down for five common KPIs used by travel companies.**

# 1 Customer Acquisition Cost (CAC) or Cost Per Acquisition (CPA) (in £)

This will tell you how much you're spending on marketing to generate each booking.

**In its simplest form this is calculated as:**

$$\frac{\text{Marketing costs}}{\text{Number of bookings}}$$

**Example:** If you spent £4,000 last month on marketing and you generated 50 bookings, your CAC or CPA is £80.

For some channels this is easier to directly calculate than others. For example, with Pay Per Click (PPC) you can track how many clicks converted into bookings. With media advertising, or events driven campaigns, it can be more difficult to identify which bookings are attributable (though dynamic phone numbers and unique offer codes can help). But by tracking total CPA per month, you'll be able to see where there are spikes and if a specific campaign had the desired effect and generated a proportionate boost in sales.

# 2 Return on marketing spend (ratio)

As well as understanding how much you're spending on marketing per booking (CPA or CAC), you'll also want to understand how much gross profit you're generating for that spend to ensure it's profitable and money well spent.

**This is generally calculated as a ratio i.e:**

$$\frac{\text{Gross profit}}{\text{Marketing costs}}$$

Continuing the example on the previous page, if the £4,000 of marketing spend generated £12,000 of gross profit, your return on marketing spend is 3:1.

Looking at this channel by channel will help you to understand where you can generate the most amount of gross profit or contribution for the marketing budget. An increase in this over time would show that you're deploying your marketing budget more effectively and generating more gross profit per £ of marketing spend.

# 3 Repeat booking rates (%)

Tracking repeat rates will help you understand how loyal your customers are.

Typically, the cost of retaining a customer, for example through a loyalty scheme or repeat booking discount, is cheaper than the costs of acquiring a new one, so improving this ratio can be a key driver in increasing profitability.

**In its simplest form you can calculate this as:**

$$\frac{\text{The number of customers booking this year that had also booked last year}}{\text{Total number of customers last year}}$$

**Example:** If you had 200 bookings last year, and 20 of those have booked again for this year, your repeat booking rate would be 10%.

There are several different ways to calculate repeat booking rates and often companies will use three- or five-year periods to calculate repeat booking rates so be careful when making comparisons to others.

Your repeat booking rate will also vary depending on the type of holiday you offer - repeat booking rates for bespoke, once in a lifetime holidays may be very different to those that offer a wide range of destinations for more of an annual summer holiday.

More established businesses will also calculate an estimated 'Life-time value of a customer' based on repeat booking rates and the average value of a booking. This may support accepting a higher initial cost per acquisition if retention metrics are strong.

# 4 Conversion rate (%)

This will help you understand how effective your website, app, store and/or call centre is at turning lookers into bookings.

Again, this would ideally be calculated by each channel using the formula:

$$\frac{\text{Number of bookings}}{\text{Number of website sessions, app or store visits or calls to the call centre}} \times 100$$

**Example:** If you had 10,000 visits to the website last month and there were 100 bookings, your conversion would be 1%.

To improve this conversion, you should start by looking at the customer journey and understand what's stopping customers from booking, for example how long it takes to run a search or how many steps there are between clicking on the search button and the customer payment page.

# 5 Net Promoter Score (NPS)

It's really important to understand your level of customer satisfaction. Higher satisfaction levels can drive higher repeat booking rates which in turn lowers CPA. One popular way of measuring this is calculating your NPS.

NPS is calculated by carrying out a survey of your customers asking the question: 'On a scale of 0 to 10, how likely is it that you would recommend our organisation to a friend or colleague?'

Respondents are then classified as follows: Score 0-6: Detractors; Score 7-8: Passives; Score 9-10: Promoters.

**The net promoter score is then calculated using the formula:**

$$\frac{(\text{Number of promoters} - \text{Number of detractors})}{(\text{Total number of respondents})} \times 100$$

**Example:** If you asked 120 customers and they responded with scores of:

1-6: 25 people  
7-8: 55 people  
9-10: 40 people

Your NPS would be  $(40 - 25) / 120 \times 100 = 12.5$

A score of 70-100 is excellent, 30-70 is great and 0-30 is good. The less said about scores below zero the better.



If you have any questions about the above or would like to talk to us about helping you set up, benchmark and track the right KPIs for your business, please get in touch.

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