



# 9 WAYS TO PULL MORE REVENUE THROUGH TO YOUR BOTTOM LINE

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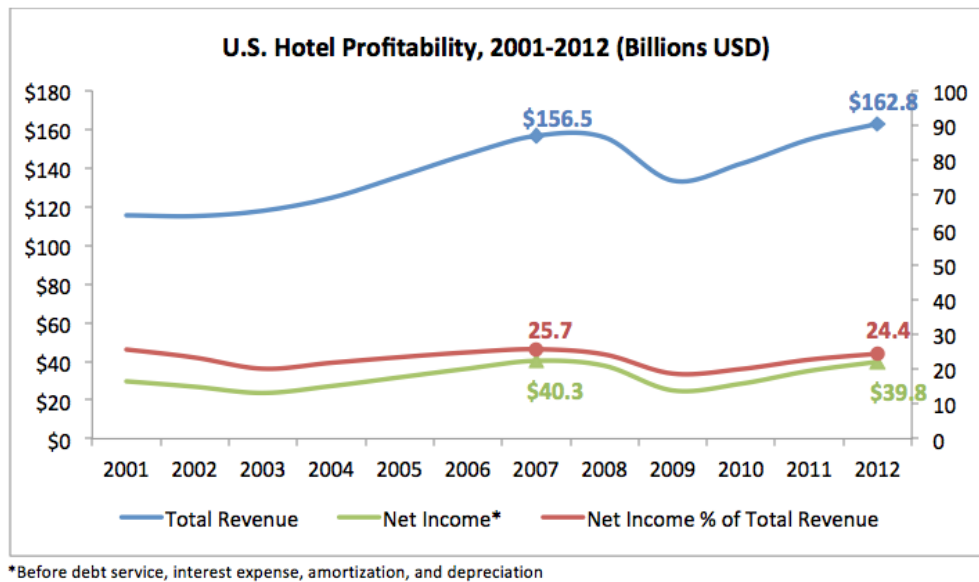
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## RevPAR is up, but what happened to profit?

Since the beginning of time, demand fundamentals in the hospitality industry have been cyclical. World or regional headlines can have a negative impact on demand for hotel rooms while periods of economic expansion have the opposite effect. Of course, supply growth directly impacts how efficiently demand levels are absorbed at any given point in time.

Today, the hospitality industry is at a very unique juncture. According to data from STR, The U.S lodging industry has posted RevPAR growth in thirteen consecutive quarters and 2013's second quarter occupancy is the highest second quarter absolute occupancy since 2007. On top of this, the construction pipeline is still quite modest for most segments. So with this "perfect storm" why aren't we seeing significant gains in gross operating profit or net operating income?

The answer it seems is that hotel managers are facing a real challenge as it relates to rising costs.



The above illustration from the 2013 HOST Almanac of nearly 6,000 income and expense statements from U.S. hotels for year-end 2012 reveals that net income as a percentage of total revenue dipped following the 2007 peak and has yet to return to 2007 levels despite the 4% growth in total revenues that has occurred in that same time-frame.

Distribution costs too play an ever-increasing role. According to a recent special report<sup>ii</sup> on distribution published by the HSMIA Foundation, a hypothetical hotel with \$3 million in room revenue may have been paying \$120,000 to \$150,000 in distribution costs a couple years ago. It may well pay close to \$200,000 to \$250,000 by 2015.

Clearly, owners and operators are under attack by rising costs in a multitude of areas, so it begs the question, what additional actions can be taken to improve profitability?

This white paper suggests nine creative solutions designed to stimulate thought around this dilemma of healthy industry fundamentals and threats to profitability. They are designed to go beyond the obvious to illuminate some lesser-known approaches to addressing this challenge.

## ***1. Focus on forecast performance.***

It is quite evident that having a clear picture of the future will enable you to anticipate what course of action will yield the best results. The trouble is, all too often, it is a select few within the organization who are granted this perspective. Typically, it's your revenue manager who creates the rooms forecast and does a good job of setting pricing and inventory controls to optimize top line performance. Your revenue manager and director of sales also focus their attention on specific need periods and set about mitigating downside potential by proactively driving additional revenue where needed. It's important to not stop there, but to bring the view of the future to the rest of your organization.

The idea behind enabling your front office, housekeeping, restaurant and other functional managers to see what has been forecasted is to help them better align their supplies, human resources, and their service offerings to varying demand levels. And while room revenue may be the main driver at many properties, forecasting other revenue streams to account for the impact of local patronage on such things as golf, spa, catering and other outlets is equally important, but is often overlooked.

It is vital that managers at all levels throughout your organization are taught how to read operational and financial forecasts, but more importantly, they must be taught the meaning and implications behind them. Forecasts without this context are meaningless and won't contribute to your bottom line. Defining processes and tools to support this effort is critical to improving profitability.

It is also important to note that there is a clear distinction between forecast performance and forecast accuracy. Forecast accuracy is important for short-term operational decision-making where activities related to cost containment are emphasized. Have your department managers look to where profit may be hiding by closely examining their departmental P&Ls and challenge them to identify what levers can be pulled at various points in time to improve financial efficiencies. Challenge and reward those who can influence guest spend levels at the property through upselling and other spontaneous purchases.

Forecast performance on the other hand requires a longer-range view. It relates to how forecasting is integrated into the culture of the organization and how responsive the organization is to predicting and responding to varying demand conditions – not only from a cost containment perspective, but also from a revenue generation standpoint. It stands to reason then that tying incentives to long-range forecast accuracy may be detrimental if upside potential is not factored in – or better yet, rewarded.

## ***2. Engage your associates.***

Not surprisingly, studies have shown that a correlation exists between guest satisfaction and the ability to garner a higher ADR. As in any hospitality organization, guest satisfaction is largely contingent on the engagement and relationship between your associates and your guests, but this also means it rests on effective communication between associates.

Many organizations focus on hierarchical, broadcast communications. Morning stand-ups, staff meetings, department meetings and interaction between associates often center on identifying and resolving operational deficiencies and challenges, and communicating new policies to support them. While these interactions are important, they aren't enough. Perhaps driven by social media participation, associates today want to feel part of something bigger than themselves. They want to contribute in a meaningful way, and derive great personal satisfaction from doing so.

Moving from hierarchical communication to relational communication is key in providing stellar service and tapping into the great ideas lurking in the minds of your associates. For instance, if your associates are broadly aware that there is an air conditioning problem in a specific room, not only can your engineer effectively stay on top of the issue, but the associate at the front desk, for instance, hearing about it from a guest can make an impact. The front desk associate could offer a package component for a free drink and communicate this to the pool's bartender. The bartender could then offer the drink on the house while personally communicating to the guest that the maintenance staff is looking after the issue.

Associates are a wealth of knowledge. Tapping into their ideas for such things as cost savings, revenue generation, guest service, safety issues to name a few, just makes sense. Fostering this type of communication requires a cultural commitment to doing so, but technologies are emerging to make the adoption of such an approach very straightforward. In fact, these technologies leverage the same type of communication methods used within today's popular social media sites – the same kind of platforms that the majority of your employees are familiar with and engage with naturally.

And when things go wrong, all too often, the default guest recovery technique deployed at many properties is some form of significant refund or credit. Sometimes this is warranted, but often a guest just wants to be heard and acknowledged. A sincere concern for the guest's well being and a token gesture of kindness may be all that is required. Challenge your associates to come up with guest recovery options that don't cost the hotel hard dollars, but that will go a long way in pleasing a disgruntled traveler. Remember that the timing of guest recovery initiatives can also have an impact. Allowing a problem to fester until checkout day is not wise. Establishing methods to quietly and efficiently address issues as they arise will save you money while positively boosting social media sentiment.

Being able to anticipate guest concerns, respond more rapidly in a meaningful way, operate more efficiently and provide a higher guest service level without increasing payroll has the potential to pay significant dividends.

### ***3. Optimize market segmentation.***

Traditionally, market segmentation has been geared towards fitting guests into broad categories defined by the P&L statement. Often this drives marketing expenditures and sales efforts. It is, quite literally, the "tail that wags the dog." It is time to think of segmentation in terms of customer value.

Understanding guest behavior in terms of booking windows, channel preference, spend propensity, loyalty, stay duration and frequency are all factors to consider. During periods of excess demand, it is important to ensure your focus is on attracting, accommodating and retaining your most profitable customers regardless of which segment their stay gets coded to on the P&L. In periods of weaker demand, it is important to offer customers relevant offers that will bring them in the door.

To carry out this mission, it is helpful to have access to tools that provide comparative "point-in-time" data from which to make decisions based both on historical actualized results and future mix of business patterns. Considering cost of distribution by channel, cost of servicing different customer

types, spend propensity and ancillary revenue capture potential will further refine who your most profitable customers truly are.

#### ***4. Match staffing levels to demand.***

Human capital is one of the highest controllable expenses in any hospitality organization. Most hoteliers today enjoy relatively strong demand, but it fluctuates in the short term. This can be problematic in controlling labor expenses if tools and processes are not in place to make sure staffing is increased to ensure proper service during busy times, but reduced appropriately when demand dips.

#### ***5. Think of inventory as a precious asset v. a perishable commodity.***

Airlines have successfully adopted an approach to extract a few more dollars on every flight through charging for services that were once free – everything from checking a bag, checking in early, sitting in an aisle seat, enjoying a cup of coffee, and having just a couple more inches of legroom.

While the concept of unbundling to this degree may be problematic within the hotel environment, there are some things you should consider that could have a dramatic impact on your profitability.

The fact that, after a night passes, the value of an empty room is gone forever, makes it one of the most perishable products money can buy. But this fact seems to drive an unhealthy industry view toward the value of our product. While it's true that value of a given guestroom fluctuates seasonally, from one customer to the next, and even from day to day, correctly assessing the value of one of your most precious assets at any given time is critical. Defaulting to selling by "run-of-the-house" is easy and allows for greater flexibility operationally, but comes at a terrible cost. It's time to change that.

Selling by unit type, even for group business and particularly during periods of high demand will allow you to garner additional ADR from existing demand. Selling in this fashion also changes the mindset of both sales and front-line associates as their attention shifts from upgrading to upselling. Reinforcing this behavior through appropriate incentive programs will help solidify this approach through all levels within the organization.

During periods of low demand, it is wise to oversell a given unit type, provided oversell limits and operational impacts are clearly defined and communicated. Unit-type utilization reports combined with an assessment of rate differentials (price steps between unit types) will point you in the right direction. Price differentials should be smaller during periods of low demand and greater during high demand periods. Understanding your guests' motivation behind unit selection may also lead to additional revenue opportunities not previously considered. Of course, these motivations are different by customer segment, so gaining necessary insights will also require some level of personal interaction.

Another way that hotels often undermine the value perception of their inventory is by giving away early check-ins and late check-outs. The conventional wisdom falls into two schools: first, if the room is ready early, why not let the guest have it, or second, if check-in is at 3PM, it's better to hold to that policy no matter what, no matter how many clean rooms we have ready and available, to avoid unmet expectations. But consider the value of an early check-in – is the guest just looking to deposit their luggage before a full day of meetings, and perhaps have the security of avoiding a potential check-in line later in the day? Or is the guest just off an exhausting overnight flight, or anxious to begin enjoying their vacation at your property? Charging extra for the latter scenario is a big revenue opportunity,

while giving away the former only dilutes the value of your inventory. The same is true of a late check-out. While the concept of “charging for rooms by the hour” is usually part of a punchline, maybe it needs renewed scrutiny, and of course requires technology that gives you an advance view of what time guests expect to arrive and depart, and a real-time view of occupancy and housekeeping status. It also requires lightning fast status updating when a dirty room is now clean, or an out-of-order room is back on-line – a great application of mobility in technology.

## ***6. Truly understand ROI of marketing spend.***

Your marketing budget has most likely shifted from a handful of print campaigns controlled by marketing to dozens and perhaps hundreds of targeted promotions transmitted by revenue management, ecommerce, and others. Taking a fresh holistic look at your strategy, and taking stock of what’s working, what’s not, and what has the best ROI can be a challenge.

While specific skill sets relating to direct sales, public relations, ecommerce and other marketing functions need to be fulfilled optimally, tying in an over-arching strategy to influence overall demand – in addition to generating demand over specifically identified need periods – is just plain smart. Assigning this responsibility to someone who intimately understands the business and can track the ROI of these marketing functions will provide the clarity needed for you to remain nimble and more rapidly capitalize on opportunities just as they begin to emerge.

The revenue management function has been evolving since its inception. Now, more than ever, practitioners are moving from reacting to market and demand conditions, to proactively driving revenue for their respective organizations. Having a single holistic view of marketing expenditures, tracking returns on that spend, and benchmarking performance over time just makes good business sense. Your revenue manager may just be the best person to help manage the expenditure side of marketing.

## ***7. Enhance guest experience while generating additional profit.***

While most revenue generation activity centers on driving new booking activity, making the most of existing demand is a worthwhile endeavor. Thinking through the guest experience from beginning to end and determining the critical points of engagement may uncover additional revenue opportunities.

Providing a flavor for the types of service offerings available at your property to enhance a guest’s experience during their stay both on your website and through other distribution channels may stimulate interest well in advance of the actual booking taking place.

We can think of a travel continuum relating to guest experience consisting of dreaming, planning, booking, anticipating, experiencing, and sharing stages. Using social media effectively to engage potential guests in the dreaming and planning stages of the travel continuum is another area that would benefit from ongoing attention. Past guests can be very strong advocates for you and can greatly influence booking behavior of would-be guests.

During the transaction (booking) phase of the travel funnel, ensure that you have adequately illustrated the benefits of upgrading to the next available room category and your booking platforms make it easy for a guest to say “yes” and confirm an upgrade.

The anticipation phase sits between the booking and experiencing phases of the continuum. Providing a vacation planner tool or facilitating communication with a pre-arrival concierge during this stage will help boost spa, golf, dining and other revenues for the property while providing a great service to your future guests.

The experiencing phase shouldn't be ignored. As guests are enjoying their stay with you, any potential anxieties related to their stay will typically subside and they will likely be more open to suggestions that are designed to enhance their experience while at the property. Take stock of those opportunities and think through the critical points of contact along with the most effective approach to communicating these opportunities.

### ***8. Review charges to ensure they do make it to the guest folio.***

There is nothing worse than having a carefully planned approach to optimizing revenue only to miss posting charges to a guest folio. Given the fast-paced nature of a hospitality service environment, things can get missed, and relying on guests to let you know isn't the best strategy.

Reviewing arrival reports several days in advance will allow time to verify pricing and package components are set correctly. Duplicate reservations and other clerical errors can be spotted and corrected as needed. Reviewing reservation sales activity from the day prior is also a good habit to get into.

Reconciling point-of-sale (POS) charges to guest folios during the night audit process is fairly obvious, but often is overlooked. Relying solely on fixed POS terminals can also be problematic in that locations may not always be convenient resulting in server's memories being taxed when busy. Providing an iPad or other mobile device for an on-the-go server, activities coordinator, and others will contribute to efficiencies and accuracy while enhancing guest satisfaction. In their hurry to check out, guests may not notice missing charges, and may not know to appreciate the freebie they got. And be careful about getting this revenue back from guests after they leave. Guests fully expect to pay for what they have consumed, but if you don't get around to charging them until after they've checked out, and then they don't see it on their credit card statement until after they've submitted their expense report, you have just ruined whatever favorable impression of your property they may have had.

### ***9. Proactively manage assets to minimize both down-time and guest satisfaction issues.***

Energy and utility costs account for a lot of ink on the P&L. Closely tracking and depicting these costs visually in order to raise the consciousness of those within your operation who can influence these expenditures can be beneficial. Aligning this data against occupancies and seasonality may shed some light into additional opportunities for cost savings.

During the downturn, deferred maintenance was a common approach to maintaining profitability. As business levels improve, occupancies, average rate, and guests' expectations all increase. Having a plan and a process behind proactively managing your physical assets has become more important. Setting new expectations amongst your maintenance staff, and giving them the tools to effectively communicate amongst themselves and with other parts of your operation will pay dividends.



Emergency repairs are costly as they distract maintenance personnel from their normal activities and often involve overtime. This kind of work will inevitably need to be performed during the most unexpected and inconvenient times. Downtime of key assets may directly impact guest satisfaction levels and prevent you from selling that suite you were counting on.

As with emergency repairs, there are few guest satisfaction detractors that are greater than not having accommodations ready to be occupied when paying guests are waiting. As mentioned previously, arming your front desk, maintenance and housekeeping associates with the means to communicate room status instantaneously on a mobile device will lead to faster turn-around times, higher guest satisfaction and increased profits.

## **The Bottom Line**

Several authoritative sources agree that RevPAR growth of roughly 6% is anticipated for both 2013 and 2014 with the majority of that growth coming from ADR versus Occupancy. This should mean that you will get more money without having to serve more people, and that almost all of this revenue will drop right to your bottom line. If you don't already see this happening in your organization, then now is the time to take the action needed to capitalize on the full profit potential of the recovery. Look beyond the things you have done in the past and think differently about what opportunities lay ahead.



## About HSMAI

The Hospitality Sales & Marketing Association International (HSMAI) is committed to growing business for hotels and their partners, and is the industry's leading advocate for intelligent, sustainable hotel revenue growth. The association provides hotel professionals & their partners with tools, insights, and expertise to fuel sales, inspire marketing, and optimize revenue through programs such as HSMAI's Affordable Meetings, Adrian Awards, and Revenue Optimization Conference. HSMAI is an individual membership organization comprising more than 7,000 members worldwide, with 40 chapters in the Americas Region. Connect with HSMAI at [www.hsmmai.org](http://www.hsmmai.org), [www.facebook.com/hsmmai](https://www.facebook.com/hsmmai), [www.twitter.com/hsmmai](https://www.twitter.com/hsmmai) and [www.youtube.com/hsmmai1](https://www.youtube.com/hsmmai1)

## About Infor



Infor Hospitality is designed to address the specialized requirements of hotels, resorts, and casinos. With a full suite of financial and operations applications that help you manage the online and guest experience, Infor Hospitality solutions let your employees focus on improving guest service and enhancing your bottom line. Decrease costs, raise profits, grow your business, and build the loyalty that keeps guests coming back for more. You'll be able to solve old problems in new ways with hospitality-driven, flexible, collaborative solutions for: property management, revenue management, customer relationship management, call center management, financial and back-office management, performance management, asset management and human capital management. Join more than 13,700 hospitality properties worldwide—including some of the world's most recognizable hotels, resorts, and gaming facilities—that use Infor Hospitality software to improve guest experiences and boost profits. With Infor Hospitality you'll get better information, more efficient processes, and top-notch support and services.

## About the Author



Trevor Stuart-Hill, CRME, founded Revenue Matters to provide industry recognized revenue management services that go beyond optimizing distribution channel production to include total property performance. He has been a part of the leadership team at Sabre Hospitality Solutions and held executive-level roles at Sage Hospitality Resources and Destination Hotels & Resorts. Trevor is a Certified Professional Pricer (CPP) and Certified Revenue Management Executive (CRME), and a member of HSMAI's Revenue Management Advisory Board. He is co-author of *An Introduction to Revenue Management for the Hospitality Industry – Principles and Practices for the Real World*, a textbook currently in use by colleges and universities around the globe.

<sup>i</sup> Wilson, Carter. "US industry revenues reached new high in 2012." *HotelNewsNow*. July 31, 2013.

<sup>ii</sup> *Distribution Channel Analysis: A Guide For Hotels*, published by the Hospitality Sales & Marketing Association International (HSMAI) Foundation, discusses the effects of channel mix on profitability and what the industry can expect in the near term in the distribution landscape. The complimentary report is available online at <http://www.hsmmai.org/trends/Book.cfm?ItemNumber=5016>.