


How hotels can drive revenue (and cut costs)

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It's a constant source of anxiety for any hotel manager. How can you deliver maximum profit while maintaining the guest experience? With the right cost-cutting measures and smart policies for growing revenue, the process doesn't have to be painful.

Cutting Costs

"A driver for both revenue and costs is distribution," said Andreas Ewald, managing partner of hotel consulting firm Engel & Völkers. "All hotels face the constant struggle to generate direct bookings while being findable and bookable via the dominating online channels that have also evolved into information and review platforms." Technological advancements in channel and revenue management help hotels benefit from the strong development of room rate levels, Ewald added. "Hotel chains apply a high degree of centralization to central offices and implement the infrastructure that allows for a quick expansion and broad allocation of fixed costs."

Robert Shepherd, IHG's chief development officer for Europe, Middle East, Africa and Asia West, said that his company is focusing on direct bookings, especially through the company's loyalty program. "The initiative has helped boost member enrollments, which is crucial given that IHG Rewards Club delivers a significant proportion of rooms revenues," he said.

Finding ways to eliminate jobs in a hotel can be an effective means of saving money, said Chris Day, global managing director of Christie & Company. Automated check-in, multiskilled staff (for example, having the front-desk staff double as bartenders) outsourcing labor and

leveraging automated controls (for example, having a room's temperature automatically set to a guest's preference) to reduce staff interaction can help reduce costs.

Gary Isenberg, president of LWHA Asset and Property Management Services, agrees that carefully controlling wages and benefits can help keep expenses down. Half of a hotel's expense load can be payroll, he estimated. "Anything you can do to control that goes a long way." To that end, management must make sure that every standard is monitored closely. For example, he said, every employee's break should be documented accurately on timesheets. Extra minutes can add up and cost a lot of money by the end of the year if not monitored closely.

Still, while cutting jobs and monitoring hours can be helpful, it should not come at the expense of the guest experience. "The human component must not be neglected," said David Etmenan, CEO and owner of Novum Group. "The guest wants to be able to check in and out flexibly, as is the case with airlines, but service and personal contact is still desired and must be available."

Growing Revenue

On the revenue side, Day has seen a big focus on driving food-and-beverage revenue in recent years, with hotels encouraging guests to leave their rooms and spend more time in public areas where they will order snacks and drinks. A hotel can also rent out its F&B space for events, driving better profit margins, he noted.

Ewald agreed with this strategy. "We see more and more hotel developments that attempt to open F&B offerings to the neighborhood, returning to the original ideas of boutique hotels as 'the place to be' in order to generate external revenue."

Hotel restaurants and bars have become an integral part of IHG's business, Shepherd said. "More people eat with us than sleep with us. Each year, IHG hosts 37 million guests in our restaurants and bars globally, and concepts like our Open Lobby design across the Holiday Inn estate in Europe have successfully increased [food-and-beverage] revenue by an average of 20 percent."

Hotels are also incentivizing guests to book direct to minimize online-travel-agency costs. These incentives can include complimentary drinks, points or special member rates. Adding additional costs post-booking can also help keep the profits in-house rather than extending to the OTA. "Package breakfast and include internet access and charge some fee per day for an urban resort, and it can be profitable," Isenberg said. "You don't pay OTA commissions on resort fees. Also, if you do a lot of redemptions, like Marriott Rewards or Hilton HHonors, the reward redemption doesn't cover the resort fee."