Hotel Executive
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HOTEL BUSINESS REVIEW Best Practices in Hotel Management & Operations

Are Rising Labor Costs Draining Your Hotel's Profits?

By Gary Isenberg President, LWHA Asset & Property Management Services | July 08, 2018

A significant share of a hotel's profits gets spent on labor, making it the most expensive line item in a property's budget. In fact, CBRE 2017 Trends report estimated payroll and related costs gobble up nearly 43% of a hotel's revenues. To put that in perspective, operating expenses account for 35% of a budget, sales a mere 7.2%.

Of course, there's a good reason why labor tops all other operating costs: Hoteliers need staff to clean rooms, check in guests, prepare and serve meals. Yet labor, I believe, presents the most controllable expense account in a hotel's budget. Hotel operators have the ability to control labor dollars, even if they don't always realize it. First, though, hoteliers must recognize all the interrelated components that influence labor costs. Some of those factors reside outside a hoteliers control, like mandated municipal minimum wage hikes and always-rising health insurance costs. Other pieces fall well within a hotel's purview -- how staff is scheduled and the impact that schedule has on labor expenses.

Operators know costs are spiraling. So the challenge becomes, what can operators do to mitigate those increases and reduce payroll expenses? Even though wages constitute the largest expense category, hotels can manage those costs when operators analyze the delicate relationship between staffing and scheduling practices and payroll.

Living Wage Laws & Healthcare

First, let's examine some external factors, specifically, efforts to raise the minimum wage and the impact of the Affordable Care Act. On the national front, the National Employment Law Project currently backs an initiative to increase the minimum wage, which has spurred a counter-lobbying program by the hotel industry.

Particularly worrisome to the American Hotel and Lodging Association is the singling out of the hotel industry for mandated minimum wage hikes. The organization notes the industry has boosted wage and salary for its workers by $18.5 billion since 2005. Further, the lodging industry collectively paid its employees a total of $74 billion in 2015. Those statistics only underscore the steady rise of wages in the hotel industry.

On a state level, several cities in California have passed living wage laws, includingSanta Monica, which as of July 1, 2017 mandated hotel wages be set at $15.66 per hour, far in excess of the federal minimum wage standard of $7.25 an hour. Los Angeles's minimum wage for workers who staff hotels with more than 150 rooms now stands at $15.37 an hour. Long Beach's minimum hourly wage is set a bit lower at $14.35.

Other California cities may join in mandating higher minimum pay. The union representing hotel workers in Anaheim, home to Disneyland, recently launched a petition asking for November ballot vote on a law that would require hotels receiving tax subsidies pay workers $15 an hour next year, with that number climbing to $18 by 2022.

California is not the only state pushing for higher minimum wages. By December, all employers in New York State must pay their workers $11.10 an hour. In hotel-saturated New York City, the minimum wage paid to workers at companies with more than 11 employees rises to $15.

At the same time, hoteliers face skyrocketing health insurance costs. A Kaiser Family Foundation study revealed the average annual premium for an employer-sponsored family plan rose 3% to $18,764 between 2016 and 2017, meaning the corresponding share an employer pays grew as well. According to the Bureau of Labor Statistics, private employers paid 67% of the premiums last year.

Then there is Obamacare and its requirement that small businesses provide health insurance to their workers. Citing skyrocketing premiums, 60% of the small business owners and buyers surveyed by BizBuy, a marketplace for small businesses, said they wanted Obamacare repealed. The tax reform bill passed last year did repeal the individual mandate that forced taxpayers to pay a fine if they didn't have health insurance. That measure goes into effect next year.

Yet the employer mandate that requires employers with 50 or more full-time workers remains in effect, although the possibility of doing away with that rule is under discussion in Congress. Although the employer and individual mandates are separate and distinct, the elimination of one could have an impact on the other. As healthier people leave the individual insurance pool, premiums are expected to spike for employer-sponsored coverage.

Managing Payroll from the Bottom Up

In light of rising wage and healthcare costs, it becomes even more imperative hoteliers implement proper labor practices and standards at the property level. Hotel managers can wrest control of their properties' biggest expense — payroll — by developing, monitoring, and constantly updating their scheduling and staffing practices; they can also zero in on those payroll areas where they can make the most difference, such as housekeeping. Since housekeeping accounts for about a third of total labor costs, hotels that manage this line item efficiently can make the most impact in reining in labor expenses. In a select-service rooms-only operation, labor is even more impactful on the bottom line, accounting for 50% to 60% of total labor costs.

Too often hotels fail to properly control this significant expense piece, leading to wasted dollars. They base their schedules and staffing guides on a pre-determined budget without considering how staffing is actually done at the property level; a corporate standard; or simply what's been done in the past. This top-down method, however, fails to yield any measureable reduction in payroll because it's inflexible and doesn't reflect the reality of the job, i.e., how many rooms can reasonably be cleaned each day. It also doesn't take in account changes in occupancy that could incur wasted payroll costs, or how operators can meaningfully engineer the schedule to reduce, or at least justify, payroll expenses.

What's needed is a bottom-up approach that reflects how managers should plan out their schedules each day. Schedules must be developed with an eye toward how it incurs payroll expenses, not a blueprint derived from an outdated guide. Managers further need to assess their schedule and its corresponding impact on payroll based on a measurable metric.

The staffing area where this method can be done most effectively is housekeeping. Housekeeping produces a finished product within a certain period of time — a clean room — and can therefore be measured like a manufactured product. Accordingly, how a manager schedules housekeeping staff has the greatest potential to reduce — or waste — payroll dollars. If the housekeeping staff isn't producing that product, then, frankly, they shouldn't be working.

Productive Housekeeping

Say a hotel's staffing guide mandates room attendants clean 16 rooms during an eight-hour shift, with 30 minutes allotted for each room. All attendants are full-time employees. Cleaning 16 rooms is the attendant's production, so to speak. That's great if the hotel is running 80% occupancy and there are enough rooms to keep the attendant busy.

On the other hand, if the occupancy sits at 50%, the hotel is paying for a production level it cannot reach because there are simply fewer rooms to clean. Yet the hotel is employing full-time attendants who must be scheduled regardless of the occupancy rate. The hotel, in essence, squanders precious revenues trying to meet a staffing guide that has little relation to the ups and downs of the hotel business. In times of low occupancy, the hotel should be laying off workers, but that needn't happen if its managers schedule properly.

Instead of sticking to an unrealistic and inflexible staffing guide, hotel operators should rethink how their housekeeping staff is put together and look at flexible staffing. A more cost-efficient housekeeping staff would contain a minimum number of full-time staffers supplemented by on-call contract workers to handle the overflow when required. Another factor impacting housekeeping is how long the rooms are occupied. For longer guest stays, less housekeeping services are required.

Recently several brands, such as Marriott, have launched a housekeeping service opt-out program for guest loyalty members, awarding the guest extra points for opting not to have their room cleaned during stays of two nights or more. This is a great program and an ideal opportunity for hotels to reduce labor costs. However, without proper planning to identify these guests in a timely manner in order to adjust the housekeeping scheduling process, the savings opportunity will be missed.

Schedules should also represent what an attendant can reasonably be expected to do within the scheduled time period. For instance, if a hotels books SMERF-type business with four to five people in a room over a weekend, it’s probably going to take longer than 30 minutes to clean a room. In that case, the rooms production during an eight-hour shift drops from 16 to 12, and once again, the staffing guide and schedule are out of sync.

GMs: Do You Know Your Rooms Production?

Ask any general manager what their housekeeping output is and they’re typically respond 14 to 16 rooms per shift. Yet a closer analysis reveals the real production number doesn’t match what the hotel is actually paying. In other words, the hotel’s rooms production is far less than the figure quoted by the GM, sometimes by as much as 50%. As a result, the hotel incurs a higher payroll because of that reduced production. Just a 10% decrease in productivity equals a 10% increase in payroll due to increased but non-productive paid hours.

Sometimes, managers set a rooms production standard nearly impossible to achieve. In one hotel I had the opportunity of working with, the schedule allotted 30 minutes to tidy each room and the attendant was to clean 16 rooms within eight hours. Meanwhile, the floor plan in the hotel featured 13 standard rooms, one suite, and one ADA room. The suites counted as two rooms cleaned, and the ADA rooms were typically the last rooms sold, so they rarely required freshening up. If the attendant had to travel to another floor, then the production quota dropped by one room.

Following that schedule led to an unrealistic production number. Even if the entire floor was occupied, the maximum room productivity, without occupying the ADA roo, would be 14 occupied rooms cleaned. The problem lies with counting one suite as two rooms occupied and cleaned, coupled with reducing room quota for travel time to another floor The hotel has boxed itself into a situation where it can never reach that 16 rooms production number; it’s always paying for less than its production goal.

To align the schedule with actual rooms production, managers must know and measure what can realistically be cleaned during an eight-hour shift, and devise a schedule based on that number. Then they can give themselves the option to tweak the schedule as occupancy dictates.

How the hotel sells rooms also factors into rooms production and payroll. A hotel my firm consulted with had a policy to upgrade guests to unreserved suites, with a third of its rooms designed as two- and three-room suites. When it came time to freshen the rooms, the two bedroom suites counted as three rooms cleaned and the three-bedroom suites counted as four.

The attendants were given 30 minutes to clean a room. Those employees earned an hourly wage with benefits of $50 – thus, cleaning one room cost the hotel $25. But by upgrading a guest paying $150 a night to a more expensive two-room suite, this meant the hotel paid $75 just to clean the suite because it counted as three rooms cleaned. Consequently, not getting a premium price for a suite incurred extra housekeeping expenses. It would have been better for the hotel to leave those rooms unoccupied until it booked a guest at that higher rate. The hotel didn't realize how its decision on booking suites would impact its P&L.

Here is another area where a schedule makes a measurable impact on payroll, albeit to a lesser degree. Even in slow periods, one front desk clerk is needed to check in guests. In a sense, that's the front desk's product. Hoteliers are nevertheless still able to manage that cost with a schedule based on arrivals and departures, for example. A hotel may require more clerks in the afternoon based on the expected arrivals. Conversely, more front desk clerks will be needed in the morning if the manager anticipates a rush of checks-outs. Again, your staffing metrics grows from occupancy, not a pre-set schedule that never changes.

To properly manage labor expenses, hoteliers must identify all the procedures and processes involved in labor scheduling and how those dynamics relate to revenue, including how paid hours are scheduled. To ensure the maximum (or minimum) number of rooms are cleaned in an eight-hour day, managers can schedule housekeepers for say, seven paid hours, with an hour allowed for an unpaid break; this comes with the stipulation that managers always check payroll punches to make sure those unpaid breaks are taken.

Hoteliers can also encourage clerks and other personnel to take vacations during down periods when replacement labor won't be needed. This doesn't hold true for housekeeping because someone always has to be available to clean rooms.

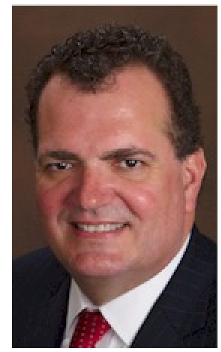
It All Fits Together

The most important thing to know about scheduling, staffing guides, and labor costs is that all fits together. One is not separate from the other. If the schedule and/or Staffing Guide disregards its probable impact on labor expenses, then the hotel's budget rises and it could be throwing away profits.

The first step in creating an efficient Staffing Guide is talking to the scheduler to see how he or she actually deploys human resources. Once the staffing guide reflects the reality of how labor is employed or should be deployed (and its impact on labor costs), then the hotel can alter the scheduling process. Rather than always following a set schedule, the hotel may want to consider flexible staffing using contract workers in place of all full-time staff, as mentioned earlier.

To guarantee payroll costs are always kept at a minimum, hoteliers should always review and update the Staffing Guide, and then ensure the schedule mirrors the Guide. To optimize the schedule further, operators must implement daily and weekly metrics (similar to the rooms cleaned standard) to calculate the schedule's impact on payroll. Is the hotel paying too much for the number of actual rooms cleaned during a slow period? Are the attendants able to meet their production goals each day depending upon occupancy? Any budget or forecast must reflect the scheduling metrics and its effect on labor expenses.

Most of all, a staffing guide originates from a realistic schedule or a realistic process for how a hotel utilizes its labor force. Without a cost-efficient schedule and staffing guide, a hotel may be losing income by paying too much for its biggest line item.



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