

CHALLENGES IN HOTEL MANAGEMENT DURING THE ECONOMIC CRISIS

INTRODUCTION

Since the global economic crisis started in the USA in 2008 the hotel business has been particularly badly affected. One of the first cost saving measures that corporate companies introduce is a ban on travel and a stop on meetings, conferences and training sessions. Furthermore, the leisure business is struggling as families do not want to spend extensively on holidays due to insecurity about jobs and employers going out of business.

For the hotel owner that had planned on selling their investment it will be hard to get a good price for their property at the moment and most owners will have to 'ride out the storm' and try to make the best of this tough situation. Now is the time to really focus on the core hotel operation, try to get more business than the competition whilst, at the same time, reduce costs wherever possible. The owner will have to make sure that the operating companies and the hotel management teams are not becoming complacent because we are in a crisis. Everyone is facing challenges but there are plenty of opportunities to closely look at your operation and ensure that you have done absolutely everything possible to control the situation. In this article I will focus on the best way to get through the current economic crisis by looking at the following areas in hotel operations and asset management:

- Revenue Management
- Guest Satisfaction & Customer Care
- Cost Control

The current times are difficult but they also give us the chance to look closely at our investment and operation and make sure that everything is done to achieve the best possible results.

REVENUE MANAGEMENT

2007 and the first part of 2008 were a real 'boom' for the hotel business. As such the results and Gross Operating Profit (GOP) levels of most hotels must have been extraordinary. At the same time, the amount of cost control was not always as high as it could have been because the results were so good. The situation has now changed and the number of business travellers has greatly decreased compared to six months ago. The hotels do not seem able to adapt to this change and continue to price very high when in fact, a small reduction in the rates can bring a lot more volume and as such better results.

The balance in between what price to charge and what volume to accept at a certain time is something that is crucial for today's hotel operation. It is easy to fill a property with very low rates but that does not make much revenue or profit. Similarly restricting volume too much in order to achieve high rates is also not a good solution. In my opinion the Revenue Manager is the third most important person in a hotel (after the General Manager and the Finance Director) and should have a fixed place in the Executive Committee.

Revenue Management History

Migrating from the airline industry, revenue management is still relatively new in the hospitality industry, and has only risen to significant prominence in the past 8-10 years. However, its rise to acceptance into the industry has been very quick. Since around 2005 our industry posted some

spectacular room rate and occupancy gains. Much of this success was associated with the good economic climate that prevailed, but revenue management can also claim some credit for these results - strong and widespread application of revenue management principles enabled hotels to really benefit from the good economic climate. The international hotels saw more results being delivered through revenue management initiatives and quickly the function was recognised and accepted as being critical to the commercial function of the hotel.

Revenue management definitions vary. In the hospitality industry the focus is mainly rooms revenue orientated, with as much as 85%-90% of revenue management initiatives being directed at the rooms department. This is a sensible place to begin as rooms profitability is high - any improvements in price per room or volume of rooms being sold are converted at almost 100% to the bottom line.

The term 'revenue management' has also been criticised as being vague and many initially saw the role as being a financial one and many revenue managers were relegated to a back desk in the finance department to generate their graphs and tables. It is now widely accepted that the function is complimentary to the sales & marketing function, and we are even seeing trends whereby Sales & Marketing Directors are reporting to Revenue Managers.

The Basics

The function of revenue management is to anticipate demand for sales so that pricing and inventory management techniques can be used to maximise the potential of 'perishable inventory'. If a room does not get sold tonight it will be lost forever. This is about producing an accurate and profitable forecast that reflects the changes in demand for our products. Pricing and volume tactics can then be targeted at specific periods to achieve an optimised result. It is a matter of "selling the right product, at the right time, at the right price, in the right place to the right guest".

The three core components are 1 - time, 2 - price and 3 - volume. These components are used together to maximise the returns before the product (for example a bedroom, restaurant seat, spa appointment time etc) "perishes" - you cannot sell a bedroom for occupancy yesterday. So much of revenue management relates to forecasting, pricing and application of tactics. As demand changes, so our business needs to respond to the market. It is widely published that where revenue management is practiced an incremental Revenue per available room (RevPAR) gain of between 4%-7% should be achieved.

Converting as much as we can

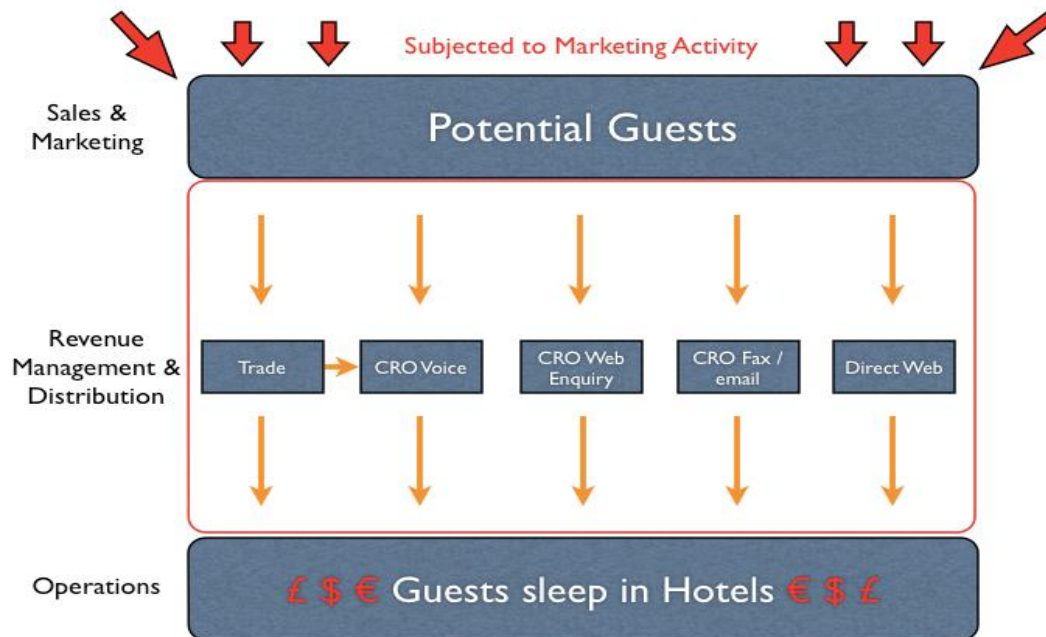
Gross Operational Profit (GOP) is broadly the result of Revenues less Expenses. More about expenses later but we can say that we have more direct influence over our expenses, and decisions taken here have an immediate and direct financial impact. In contrast, we have less influence over our revenues - we cannot demand a specific volume of business at a particular price and time. We can only make sure that we have the right product, in sufficient quantity, available at the right time and right price and hope that the potential customer makes a favorable purchasing decision. Even when we have the right factors in place, a competitor may change their price and suddenly our prices look too high.

Trading conditions are already a big challenge in 2009 and this is certainly not going to change in the next 12 months. The only action that can ensure continued profit delivery is increased revenues. This may require simply more business volume, but through revenue management application it is possible to achieve higher returns from existing business. Your decision making has to be supported by more accurate business intelligence, and your speed of response should be

improved through the outcome of improved forecasting. Even in a downturn there will be nights of higher opportunity, and you will want to convert each one of these.

The Commercial Sandwich

The commercial process is targeted at identified segments of potential guests. These guests are subjected to marketing and sales activities in the anticipation that their hospitality choice will be in your hotel. They will evaluate your offer, the price, availability and other deciding factors. The information is usually presented via the distribution network. This same network is then used to transfer the new reservation to the hotel, so distribution and marketing services are completely linked. The objective is to use this relationship to optimise the business potential and realise the financial benefits of this.



From the diagram above, it is clear that sales and marketing efforts will only be realised at their maximum potential when revenue management and distribution strategies are aligned with the sales and marketing strategy. There is a limit to how much new business can be gained from sales and marketing activities - revenue management enables you to secure the most lucrative potential from these initiatives. You don't want to just convert business, you want to convert it for the best possible price, and you want to have the confidence to deny the conversion if you believe that it will displace more premium business.

Revenue Management principles are relevant in all business environments. As a function, it is particularly well suited to the hotel industry as it provides near perfect conditions for the application of revenue management principles.

The optimal conditions required to implement revenue management initiatives are;

- The capacity of resources (rooms) for sale must be fixed (hotels have a fixed number of rooms for sale. It is not the norm to have a flexible room count)

- The resources (rooms) must be perishable - rooms not sold for occupancy tonight can not be sold tomorrow for last night's occupancy. (rooms are sold in advance of consumption)
- Demand can be segmented to different markets or at different prices.

Hotels meet all of the conditions above, with the result that revenue management initiatives will deliver performance improvements. The size and the style of a hotel, as well as the market it operates in, will have an influence on the application of each of these factors. For example, you may be restricted to a certain geographic market, or you may have certain prices dictated by government regulations. However, it is unlikely that you will not be in a position to meet at least two of the above three requirements.

How to measure revenue management efforts

From an Owners and Hotel Asset Management perspective there are a few key measures and indicators that will help you make a judgement as to whether your hotel is performing well considering the current circumstances and if the numbers they give you as a forecast are challenging but reasonable in the market.

Comparison to the direct competition - Hotel Management companies must maximise every possible opportunity in order to drive business. There are various ways to measure this, in the current environment: the most reasonable at the moment is the hotels' position within its competitive set. This can be done through an independent analysis such as STR or locally by a 'ring round' where all hotels exchange occupancy %, average daily rate (ADR) and revenue per available room (RevPAR). Ring rounds are no longer allowed in the European Union as they can be perceived as inside information and monopolizing on pricing. This is why independent analyses through professional companies will only show the competing hotels as a total figure and show your hotels position without telling you which hotels are higher and which are lower than you. Either way, comparing your results with those hotels you consider to be your nearest competitors is the only way to see how you are performing in the market. If you are growing your revenue by 10% you may think that is a good result but, if the competitive set grows by 25% then you are not doing so well after all. Similarly if the market as a whole is dropping by 25% (as is currently the case in many cities) and you are 'only' dropping by 15% that is a good achievement. Please see below an example of hotel 'X' in a major European City:

Date	RevPAR					
	This Year		% Chg		Index	Rank
	My Prop	Comp Set	My Prop	Comp Set		
Jan 2008	129.77	155.64	-15.0	7.3	83.4	5 of 7
Feb 2008	155.54	161.72	-1.7	-10.3	96.2	3 of 7
Mar 2008	238.07	228.05	-2.4	-5.0	104.4	2 of 7
Apr 2008	255.88	272.53	-5.2	-10.6	93.9	3 of 7
May 2008	322.88	337.95	-12.4	-4.6	95.5	4 of 7
Jun 2008	351.03	362.42	-20.0	-14.2	96.9	3 of 7
Jul 2008	235.33	276.99	-25.0	-19.3	85.0	4 of 7
Aug 2008	129.86	181.14	-40.6	-18.5	71.7	6 of 7
Sep 2008	251.51	307.52	-29.1	-9.0	81.8	6 of 7
Oct 2008	283.17	304.46	-27.1	-19.5	93.0	3 of 7
Nov 2008	210.14	199.30	-15.0	-24.7	105.4	2 of 7
Dec 2008	132.21	166.67	-24.9	-19.9	79.3	6 of 7
Total 2008	224.53	247.38	-19.2	-12.9	90.8	4 of 7
Period	251.24	265.60	-8.8	-4.5	94.6	3 of 7

In this example we focus on RevPAR as it gives us a balanced view in between rate and occupancy. If we concentrate on November 2008 we see that this hotel did very well: the competitive set dropped by 25% over last year whereas the hotel only dropped by 15%. By doing so the hotel improved its position within its set of 7 hotels from 3rd to 2nd. Unfortunately the hotel became complacent and the competition became smarter. In December the competitors decreased RevPAR by 20% against last year but our hotel was 25% worse than 2007 and as a result its position amongst the 7 competitors dropped from 2nd in November to 6th in December. This is a very clear and real indicator for an owner that more attention needs to be paid to the operation as there are certain results possible in the market but our hotel is missing out.

PACE Reports - Pace means the speed with which something takes place. This applies to walking but also to the speed or tempo in which reservations for our hotel are coming in. By comparing the current pace to the pace at the same time last year we can see if we are on track. Even when the forecast is different because of the economic situation we can still work out a percentage of reservations 'on the books' to see if our forecast makes sense or not. By looking at the PACE every week we can see if the tempo increases or decreases and take action wherever necessary by lowering pricing or creating promotions to drive volume or by increasing rates in periods of high demand. The example below gives you a high level idea of what a summary PACE for an owner should look like. The PACE reports for the Revenue Manager are more complex and should be broken down by market segment as well as booking channel in order to optimise the revenues.

Total PACE (rms revenue)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Previous (02/03)	731	410	253	120	99	78	46	15	11	12
Current (09/03)	1,123	492	288	140	114	93	51	18	12	12
Movement	392	82	35	20	14	15	6	3	1	0
STLY	1,220	436	243	186	192	123	36	22	19	9
Movement	(97)	56	46	(46)	(78)	(30)	16	(4)	(7)	3
Movement %	-8%	13%	19%	-25%	-41%	-24%	44%	-16%	-38%	30%
2009 OTB %	84%	38%	21%	9%	7%	8%	4%	1%	1%	1%
2008 OTB %	84%	29%	16%	11%	11%	9%	2%	1%	1%	1%

You can see that for the month of March this hotel has €97 less on the books than the same time last year (STLY) as the outlook is lower it still has 84% of the total forecast on the books (OTB). A bit further out you can see that what is on the books for April and May actually exceeds last year which is an excellent result considering the crisis. You also see that the PACE increases the closer you get to the actual month. In the current environment bookings are made later and later as people know that there are bargains to be had. This is why the 'lead time' is getting shorter and shorter which makes forecasting and revenue management decisions difficult.

Customer information on the web - Websites like Trip Advisor (www.tripadvisor.com) are having a huge impact on the decision making process of where to stay. It is said that over 60% of travellers from the UK and the USA make a decision based on other people's independent reviews on Trip Advisor. This can be free advertising that has more influence than many advertisements in newspapers and magazines! But on the other hand, a few negative comments can have a detrimental impact at your business. The interesting thing is that Trip Advisor also offers hotels the opportunity to respond to comments which will be published underneath the guest comment. There are cases where a General Manager personally answers every remark, which is greatly appreciated by the readers and actually generates business.

Reservation Conversion Ratios - Ask your hotel operations team to make sure that they measure the amount of calls the reservations department takes per day against the amount of bookings taken that day. If somebody makes the effort to call your hotel they have a real interest in your property. They actually make an effort and spend money calling your hotel. You must ensure that these direct calls are converted into reservations. High standards of telephone manner, genuine interest from your staff in the customer and a good knowledge of available rates are extremely important. If your reservations staff is well trained and is willing to engage and go the extra mile you will win the business. Alternatively business is being lost everyday by staff that is not interested. By implementing, measuring and incentivising high conversion ratios (40% is a good benchmark in most cases) you will get ahead of the game. It is further recommended to start making test calls to your properties to see how they are responding to calls and how 'hungry' they are to convert your business into a real booking.

GUEST SATISFACTION AND CUSTOMER CARE

Communication

In my opinion, Senior Management has to start this process by leading 'from the front'. The first step is to make sure that everybody (and I mean **everybody**) in the hotel feels part of the team. This does not have to cost a lot of money but it will take up some time. Senior Management should make an effort to explain to all staff how the hotel is doing, explain about the challenges we are facing and show them the basic financial results. This should be done during so called 'keeping in touch' meetings. They have to be fun and engaging and presented in such a way that everybody knows what is going on. At the same time you should share the forecasts and targets you have for the next few months and ask the staff to think along with the business. You will be surprised at the positive reaction after a few sessions! By updating the staff in this way they will start to feel more a part of the company and work differently. This is not about sharing bottom line profits and General Managers Salaries but about explaining revenues and GOP's.

Training

It is very easy to stop all training and save some money in this way during a period of crisis. If we are talking about expensive outsourced team building programmes I do agree with this. But if you develop basic customer care courses in house or through the management company during periods that are quiet this will be hugely beneficial for the ongoing results. Staff will feel even more engaged and will get a better understanding of what is expected. Costs have to be minimal and Heads of Department can do the training themselves. Apart from customer care we also expect our staff to know and understand their job. On the job training and handing down of experience has to be promoted to everybody. Supervisors should aim to grow their staff from within so that when a supervisor leaves one of the regular staff can be promoted. The hotel will benefit with better equipped and confident staff, the staff will benefit as they are learning something that will be useful throughout their career and the guest will benefit as he is serviced better and as a result he will come back!

Empowerment

So, now we have properly informed and better trained staff.... The next step (and perhaps most difficult one) is to trust them! If there is a complaint, staff should be empowered to deal with it up to a certain point. If the food is not good, a waiter should be able to decide to give a discount or offer a complimentary drink without checking with a supervisor. By giving these small and controlled pieces of freedom you will enable members of staff to take initiatives just like they are doing with their guests at home. They are in control and they will treat the business a little bit

more as 'theirs'. Guests will feel this immediately, they will be happy with the product received, write a positive review on Trip Advisor and come back again and again.

Your staff is your most valuable asset. They can make or break the experience of your guests and the better educated, informed and empowered they feel, the harder they work to drive your business. If staff start taking advantage of any of the privileges above by not showing up for training and 'keeping in touch' meetings action has to be taken immediately to correct and even dismiss if the attitude continues. Saying that, I have visited a lot of hotels over the past months and I always manage to find a few employees that are very keen to learn and engage in conversation. They are the ones that will thrive on a programme as described above. Your business will only benefit from this.

The best way to measure your progress on guest satisfaction is to make sure that you have some kind of questionnaire that is tracked properly and analysed in a professional way, make sure that results are shared with all staff and celebrated in the case of positive feedback. If the answers are not good, the customer feedback has to be actioned at once and communicated back to the guest. Keep in mind that if you are able to 'turn around' a guest complaint whilst the guest is still in house you are almost certain that he or she will come back! Another good reference point for guest satisfaction is the Trip Advisor website mentioned above where guests share their experiences. Again, to give management feedback on this site can be a very valuable tool to show your commitment and encourage guests to return.

COST CONTROL

The final measure to challenge the situation we are facing today is the most obvious one: control our costs and our wages. This should be second nature but we all know that when times are good controls tend to be relaxed. In today's climate every cost should be analysed and considered. Nothing should be taken for granted and please remember that your suppliers will be just as desperate for business as you are. Similar to the fact that we are willing to lower prices for a higher volume (see above) your suppliers will almost certainly be willing to do the same. Do not take any contract for granted, many suppliers are willing to change contracts as long as they can keep the business.

The management company will take care of the day to day operation of your hotel, but as the Owner, it is essential to show a keen interest in the way they do this. I would recommend to organise a monthly profit & loss account review in which the hotels' senior team, with the management companies regional support staff, should explain the results to date and what actions have been taken to control the costs and maximise the results. Based on the current trend they should present you with a detailed forecast for the remainder of the year in which more savings initiatives are presented. Just as all costs are analysed so should the recharges from the hotel company for training, IT, sales & marketing and divisional staff be analysed. We are all in this together and if there are opportunities to minimise costs in these areas they should be taken. It is important to create an atmosphere where all three parties (owner, operator and hotel team) work closely together for the benefit of the hotel. In good times the results are shared; in bad times the sacrifices must also be shared.

CONCLUSION

In all three areas we have covered it is important to keep a certain amount of balance and perspective. This can be difficult at times in particular when business is bad and when cash is

low. Try to keep in mind though that in revenue management you can lower your rates too much. This will fill your hotel but will not necessarily make you more money. At the same time, if you offer lower rates now it will be harder to negotiate increases in the near future. Similarly, you can cut all costs to a minimum and choose not to provide essentials to your guests, but they will soon become disillusioned and stay away. You will make marginally more profit in the short term but struggle thereafter. Finding a balance in these cases is not always easy, however, enlisting the support of a professional consultant may be a solution to get the most out of your property.

These are some guidelines that may be of help whilst you maintain your investment and drive the bottom-line. It is important to continue to try and maximise the value of your property in the difficult times we are going through. If you have any questions or remarks, I will be delighted to help.