HOTELS
PASSION FOR HOSPITALITY

OWNER EQUITY BY CHAD CRANDELL
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Audience participation: What the heck happened to rate growth? (Part II)

(The views and opinions expressed in this blog are strictly those of the author.)

This is Part II of a series of blogs intended to explore current factors contributing to anemic rate growth. This is a complex riddle to solve, as hotel owners struggle to understand interests that support a profit-centric strategy versus those that detract from it.

I was very pleased with the response to my first blog on this topic, and extremely appreciative to those who took the time to weigh in on the GRD ("Great Rate Debate"), namely: Why do you think it's so challenging to grow ADR with occupancy at an all-time high?

More important, it's good to know that I'm not the only one scratching my head on this issue. For this post, I've recapped some of the observations shared and the prevailing themes surfaced from your feedback. I've also identified a few issues that undoubtedly deserve further exploration, which I plan to investigate and cover in future installments of this series.

1. Labor: One contributor offered that labor costs are a factor driving a strategy that favors occupancy over rate. "In Europe and Asia, hotels do not have flexible labor components and as result, lower occupancy and lower F&B business will result in lower overall revenues without seeing fixed payroll expenses decline in the same way. Thus, profits erode with lower occupancy." While this example makes reference to international markets, I think many U.S. hotels are also straddled with rigid labor models and work rules, making it very difficult to "flex" expenses at lower occupancy levels. I agree that labor costs could be a decision factor in opting for a more occupancy-focused strategy (as opposed to trading occupancy for a higher rate), but again wonder why this would play so heavily into the equation in markets that are operating at record-level occupancies?

2. Ancillary revenue: Similarly, a case was made for ancillary revenue as a motivating factor behind growing occupancy, whereby higher occupancy translates into more guests on property and a higher propensity for overall guest spend. I think for some properties this business model holds real merit, especially those that typically accommodate multiple people per room and offer many opportunities for guests to spend (i.e. resorts). Where this falls a little flat for me is in execution. I think in theory, more people = more spending. But the issue is how much of that incremental revenue is actually being converted into profit? Our high fixed and variable operating costs are such that this strategy does not always yield a more profitable hotel.

Further, this issue of looking at "total spend" as a prevailing operating philosophy made me think about the way we often value group business. In theory, a sales manager may be more inclined to offer a discounted room rate to groups based on a sliding scale of food and beverage and other ancillary spend. But if you stop to consider the profit margin on incremental room rates (80% to 90%) versus that of F&B (30% to 40%), perhaps we should be holding firm on room rates and giving F&B discounts? Profit-centric versus revenue-centric decisions.

3. Revenue… It's a brand thing: ADR growth no longer appears to be a brand strategy. When brands are giving guidance during budget season or reporting on earning calls, the discussion centers on RevPAR. However, there is never a discussion of what constitutes a "good" RevPAR versus a "bad" RevPAR strategy. While savvy owners know that not all RevPARs are created equal (in terms of profit contribution), unfortunately, operator success is top line driven … from stock prices to management fees. As a result, all of the component parts are driven off of this philosophy, and I am certain this factors heavily into the rate issue and erosion of ownership profits.

4. Let's blame Amazon: I completely agree with the observation that technology perpetuates a customer perception across all industries that everything should be less expensive than it once was, and chances are, a deal is out there if you just keep looking. This "price-centric" culture makes it increasingly more difficult to differentiate on other factors, although I've not lost all hope that it can be done. I think this is an area that brands can, and should be, focused on. Rather than coming up with the next great discount (i.e., book direct), come up with the next wave of value propositions, experiences,

something unique that resonates with guests that only hotels can provide and give them a reason to trade “technology” for “hospitality.” Which brings me to the next item…

5. Book direct vs. the OTAs: Book direct was the big brand response to recapture lost share from OTAs and reduce commission costs. It’s been about a year… Is it working? In short, I think not, but I will reserve full commentary on this topic for a future blog in this series. Stay tuned, more to come.

6. Revenue management systems: Last, there was some great feedback provided on revenue management systems – “(wo)man versus the machine.” This is another aspect of the “GRD” that I’d like to explore further in a separate blog on how hotels are leveraging technology in combination with human expertise, and best practices for preventing a “set it and forget it” mentality.

Please keep the comments coming, and I look forward to sharing the next installment of the GRD!

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