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Attack of the silent profit killers

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

Do you remember the Stephen King book (and later, movie) “The Mist,” starring an eerie vapor that rolls into town wreaking inexplicable havoc on its people? Well, that’s kind of how I feel about some of the expense trends we’ve seen this past year – many unsuspecting, silent, stealthy costs growing at an alarming rate and wreaking havoc on our profits!

While there are several expenses that fall into this category, I want to highlight two in particular that I would categorize as “silent killers”. These two expenses, eating into our most profitable rooms department, should be closely examined and discussed with property teams.

The first: Group commissions. There is a heavy emphasis on strategies for shifting share from OTAs to direct bookings in an effort to reduce commissions on the transient side. But for many hotels, the cost of group commissions can be equally, if not more, detrimental to the bottom line. Across our big-box hotels, we have seen staggering increases in group commissions in 2017, with minimal growth in group rates and ancillary spend, creating a double hit to profitability. To provide a sense for the impact, group commissions for one of the convention hotels in our asset management portfolio increased nearly 27% year-over-year, representing a US$700K increase YTD through September. As a percentage of group room sales, this property experienced an increase of more than a point, representing 10% of total group revenue… alarming.

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While the intermediaries booking group business are not going away anytime soon, it is important to acknowledge these costs (today, and in future) and incorporate into business evaluation tools and pricing strategies (of both rooms and food and beverage) to accurately assess opportunities and ensure that profit goals are met. It will also be important to recognize these expenses as part of the budget process this year as part of the overall business strategy for 2018.

The second: Credit card commissions. These are related to the first. When the OTAs instituted the “pay later” option a few years back, we saw a modest increase in credit card commissions, as these fees shifted from the OTAs to properties. In more recent years however, the biggest culprit driving up credit card fees are groups. What was once paid for by wire transfer at essentially no cost to the hotel is now paid by credit card by many groups (looking to collect their points, no doubt!), costing hotels exorbitant fees, further compounding the “hit” against group revenue.

We all acknowledge the collective challenge the industry has had in increasing rates. But, coupled with these, among other silently creeping expenses, we estimate that net group rates have declined considerably in recent years, yet we don’t hear much about it.

Perhaps brands should focus next on “Book Direct” campaigns for groups and leverage pricing power to negotiate reduced credit card commissions… we’ll add it to the owners’ wish list!

In the meantime, be mindful of these two “silent killers” of profit this budget season and work with your operating teams to be sure strategies are developed to mitigate impact – whether it be pricing adjustments to off-set commissions, or pass through on credit card fees, there are measures that can, and should, be taken.