How Hoteliers Can Beat the Recession

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These are tough times to be in the hotel business. Occupancies and average rates are down in nearly every market, resulting in double-digit declines in RevPAR. Owners and investors are struggling. Hoteliers are reacting in different ways. We've all seen concierge services downsized (or eliminated), restaurants closed, roomservice hours curtailed, amenities cut back. We've even seen major chains announce they will no longer leave the morning newspaper outside of guestroom doors.

Some luxury hotels have cut their services back so much there isn't much luxury left. The cause, of course, is a 10- to 15-percent decline in travel that began in early 2008 and accelerated as the year progressed and continued this year. But as hoteliers cut services in an effort to boost the sagging bottom line, aren't they penalizing the remaining 85 to 90 percent of travelers who are still on the road? Aren't they in effect driving customers into the arms of their competitors?

Other operators use blind discount websites to undercut their competitors and fill vacant rooms. Stories in the press abound about the great travel deals that are available in the current economy. The operator who brings that middle school volleyball team into his upper-upscale or luxury hotel for $99 a night might feel like he's making a smart move in this economic environment, but what are the consequences? He's bringing in revenue for rooms that would otherwise sit empty, yet how will his usually loyal $350-a-night regulars enjoy their 14-year-old neighbors? This example is a bit extreme, yet it shows how this operator could be driving his most loyal guests down the road.

When the economy rebounds and the operator wants to raise his rates, what happens? The once-loyal regulars will be long gone and the middle-schoolers will head for a select-service property. It will take many years before the effects of a heavy discount strategy can be reversed (if it is even possible).

But not everyone is slashing rates and cutting costs by pulling the plug on service. Sure, everyone's tightening their belts; however, there are operators who are focusing on increasing employee productivity as a means of improving the bottom line —without taking it out on the customer. Making more effective use of the hotel staff can be a much more effective alternative to discounting and cutting services.

As the largest single expense item, payroll cost reduction through productivity improvement is a key area of opportunity for many hotels. Hoteliers at all levels and in any economy can make their operations more productive and profitable by employing an effective labor management solution.

A savvy approach to raising productivity involves five areas:

Forecasting. Understanding how many customers to plan for is an essential first step in raising productivity. Without knowing how many customers to plan for, how can a restaurant manager or spa director get the staffing right? An increased focus on customer forecasting can yield an operation that runs more smoothly. The key to effective forecasting is to employ sound methodology and evaluate results after the fact. Evaluating forecast accuracy is, in effect, learning from one's own mistakes and is essential to improving future accuracy.

Staffing guidelines. Sometimes called labor standards, staffing guidelines provide a rational approach to scheduling employees so service levels are maintained and financial objectives are achieved. Smart operators are retooling and reconfiguring their staffing guides, enabling them to schedule precisely the right number of employees so not a dollar of payroll is wasted, yet guests remain satisfied.

Scheduling. With accurate forecasting and effective staffing guidelines, scheduling becomes a straightforward exercise. Department managers simply apply the staffing guidelines to the upcoming week's forecasted business volume to create their department schedules. Comparing scheduled hours to target hours (the number of hours that should have been scheduled given the upcoming week's forecast and the staffing guides) provides proactive feedback and helps control labor costs before, rather than after, they are incurred.

Time & attendance. A key component of any productivity initiative is a review of time and attendance procedures. Checking to see managers make timely edits so employees receive the correct pay is important. A simple review of the hotel's meal break policy can insure that employees are punching in and out for breaks correctly, a practice that can save thousands of dollars each month.

Labor reporting. Department managers need realistic and meaningful feedback to let them know how effectively they have managed labor costs. A comparison to the annual budget is an important discussion topic when reviewing performance with the owners, but it becomes a whole lot less meaningful at the department level, especially when actual operating levels deviate significantly from budget targets. A more effective comparison is to use the hotel's staffing guides to calculate standard costs to show how many hours should have been used given the actual volume the hotel experienced.

While the experts debate whether the economy will recover by the fourth quarter or sometime next year, in the meantime operators can focus on how to emerge from the recession with the most market share. Business may be different when the smoke clears, but the importance of maintaining a strong reputation for service will never change, particularly in the luxury and upper-upscale segments. So, will it be the discounters and service cutters to emerge as market (and profit) leaders? Or will it be the operators who've focused on productivity improvement and taking care of their customers?

We know from previous downturns that cutting service will drive away the best customers and that the bargain hunters will disappear when operators try to raise their rates. Heavy discounting and slashing service levels may seem sensible now but invariably creates a difficult scenario when the recovery begins. The operators who have cut services and discounted heavily will have unwittingly repositioned their hotels as market followers, not leaders. They will find it next to impossible to raise rates.

Forward-looking operators are taking steps now to operate efficiently at any business volume. By embracing a labor management initiative, savvy operators can maintain and even improve guest service while creating cost-saving efficiencies that are invisible to the customer. So what's the short answer? Simple: Cut waste, not service.

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