

THE GOP SQUEEZE: HOW ASSET MANAGERS MAXIMIZE HOTEL PROFITABILITY

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Despite RevPAR being the legacy, go-to metric to gauge the health of the hospitality industry, owners and investors know, as the adage goes, that you can't take it to the bank. The most important figure to them is GOP, or gross operating profit, a number that is derived from operating revenues minus operating expenses. In sum: what is left at the end of the day before items like property taxes are deducted.

In the ever-evolving hospitality industry, owners often turn to asset managers, who play a critical role in safeguarding their investment by maximizing profitability.

As economic challenges, such as a potential recession, still-rising interest rates and wage increases, loom, asset managers must identify areas of improvement to ensure sustained profitability. Focusing on operational performance is a key strategy to blunt their effects—and that's where strong asset management comes into play.

By engaging in effective discussions with operators and brands, asset managers can drive positive changes that lead to superior financial outcomes. Here are seven strategies to help boost the bottom line:

1) Labor optimization: Labor costs constitute a significant portion of hotel expenses. As inflationary pressures continue to drive up wages, it is essential to prioritize efficiency. Asset managers should encourage the management company to conduct a comprehensive labor audit, aiming to identify inefficiencies and declining productivity. By comparing hours worked by position against productivity standards, the audit can reveal areas for improvement.

Benchmarking against similar properties can provide valuable insights. Monthly productivity measurement and annual productivity standard reviews should become routine practices.

Furthermore, asset managers should challenge the management team to assess the necessity of various services and eliminating non-essential ones. Evaluating non-hourly associates and management positions for effectiveness can yield substantial GOP gains. Consider average hourly wages in some U.S. cities approaching \$20 per hour: Each associate costs \$40,000, just in wages, to the bottom line.

2) Guest amenities: COVID has receded and amenity creep is making a comeback. Though brands often dictate amenities offered in guestrooms, asset managers can seek brand guidance for available amenity options and evaluate if a more optimal size/brand is available. Asset managers should review all amenities that are offered and determine if an item makes a difference to the guest experience. Try eliminating an item, such as lotion or an extra set of towels. Test what works and review results; ensure the hotel participates in towel re-use, linen changing and other green programs. Most guests will participate and the savings can add up quickly.

3) Service contracts: Eliminate automatic renewal clauses. Hotels typically use outside vendors to provide services like laundry, elevator repair and cable TV. Many of these contracts are renewed automatically without re-bidding or seeking a reduction in the fee. All contracts should be reviewed and rebid annually. Insist upon a blind or sealed bid process and a minimum of three vendors invited to bid. Finally, review bids obtained by the management company and exercise approvals rights outlined in the hotel management agreement.

4) Maximizing F&B profit: Food and beverage operations offer numerous opportunities to enhance GOP. Initiating a menu audit and regularly comparing prices to competitors can help identify areas for price adjustments. A small increase in prices for entrées or beverages can yield significant profit gains. Periodically reviewing food purchases to ensure the best prices are obtained is essential. Leveraging buying co-ops or brand purchasing platforms can assist in securing favorable prices, but careful evaluation is necessary, as brand platforms may not always offer the best prices. Semi-annual performance reviews of purchasing programs should be conducted.

5) Controlling distribution costs: Growing distribution expenses can erode hotel profitability. Asset managers should urge brands to leverage their negotiating power with online travel agencies (OTAs) to lower commission structures further. Exploring strategies to drive direct bookings and reduce reliance on OTA commissions is crucial. Regularly reviewing distribution costs and annually assessing commission margins with brands can identify potential savings.

6) Optimizing marketing expenses: Hotels typically allocate a significant portion of total revenue to sales and marketing expenses. Asset managers should review any additional marketing program fees beyond distribution, labor and national fees to assess their return on investment. Marketing programs evolve rapidly, and it is important to ensure ongoing success. Programs that were once effective may no longer yield desired results. Regular evaluation of marketing initiatives will help allocate resources more effectively.

7) Effective property operations & maintenance: Asset managers can collaborate with operators to implement energy-saving measures, such as re-lamping buildings with energy-efficient lighting like compact fluorescent lights (CFLs) or low-emitting diodes (LEDs). Although the initial investment may be substantial, long-term savings are significant. Operators should explore potential rebates and incentives for reduced electrical consumption from local and state utility companies. Reviewing and optimizing the property's preventive maintenance program ensures equipment operates at peak efficiency, reducing unnecessary expenses caused by malfunctioning machinery or wasteful resource consumption. Finally, monthly data on maintenance performed should be provided by the operator.

These strategies provide a starting point for asset managers to maximize GOP and achieve superior financial performance for hotels. They aren't exhaustive and continued exploration of cost-saving opportunities and revenue enhancement is essential.

The hotel industry is a unique blend of real estate investment and complex operational management. Asset managers who prioritize diligent oversight and consider hiring in-house experts or engaging external firms to assist in these endeavors can make the crucial difference between good and exceptional results. By embracing proactive measures and fostering collaborative relationships with operators and brands, asset managers can navigate economic challenges and position their hotels for sustained success.



John Paulsen of asset manager hotelAVE.