

W H I T E P A P E R :

Best Practices in Hotel Operations

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Doing the Right Thing(s)

The hotel business is not a simple or straightforward one. Indeed, operating a successful hotel requires some delicate choreography between countless moving parts, and a careful balancing-act as priorities change in the face of cyclical fluctuations.

For this reason, there are a number of best practices in hotel operations that are critical to the profitability (and even survival) of a hotel. These range from finance to operations to guest experience, and implementing them often means the difference between being in the red and being in the black.



Financial measurement best practices

Every business, hotel or otherwise, lives or dies by its financial performance. After all, without sufficient revenue, it's impossible to stay in the black.

When it comes to the hotel industry, however, there are number of financial best practices that go beyond basic revenue targets

Specifically, there at least 12 KPIs any given hotel should monitor and measure, but when

it comes to financial measurement best practices, there are three KPIs that are of particular importance.

1

Average Daily Rate

2

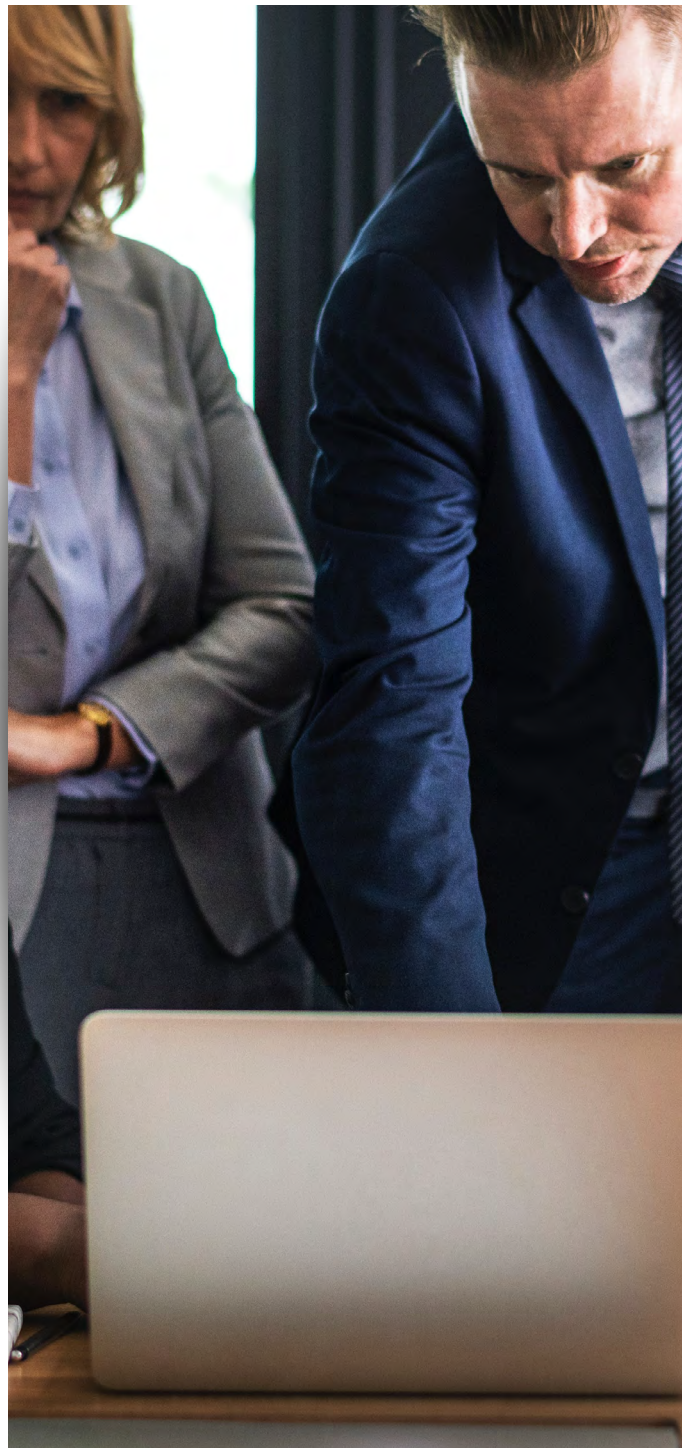
RevPAR

3

GOPPAR

4

Marketing ROI





AVERAGE DAILY RATE

Average Daily Rate (or ADR) is just one useful metric that hotels can use to measure and calculate their profitability. It provides insight into the average rate a room can earn on any given day during any given period, and is particularly useful for demand forecasting and predictive marketing. Indeed, ADR helps hotels predict seasonal trends, adjust their pricing accordingly, and maximize revenue per room.

RevPAR

Revenue Per Available Room (or RevPar) goes one step beyond ADR, and can be calculated in one of two ways: either "by multiplying a hotel's average daily room rate (ADR) by its occupancy rate, [or] by dividing a hotel's total room revenue by the total number of available rooms in the period being measured."¹

Of course, this number can fluctuate from seasonality, economic climate, and consumer trends, which can make it difficult to track. But

RevPAR remains crucial to understanding the success and profitability of a hotel property at any given time of year. Indeed, it should be used to plan and prepare for both high and low seasons.

GOPPAR

GOPPAR is a hotel industry KPI that is designed to provide better insight into hotel performance than the more commonly used RevPar.

While RevPar can be an excellent indication of a hotel's occupancy-related revenue, it does not take into account operational costs that were incurred in generating that revenue. And when it comes to assessing the performance of a hotel property (or any business), revenue must be compared against costs.

GOPPAR, on the other hand, does take into account the operational costs incurred to generate the revenue of any given room (or the hotel as a whole). In a nutshell, GOPPAR is calculated by subtracting hotel expenses from the hotel's total revenue, and dividing the difference by the number of available rooms.

In other words, GOPPAR provides hotel owners with a more comprehensive picture of their property's performance by looking not only at what their total sales are, but what the margins on those sales are once input costs are accounted for.

MARKETING ROI

Department store magnate John Wanamaker is famous for having once said "Half the money I spend on advertising is wasted; the trouble is, I don't know which half." Fortunately for hotels (and other businesses), we now live in a digital age where most (if not all) of our marketing efforts can be tracked, measured, and quantified.

If anything, because it's now possible to track, measure, and quantify marketing spend, it's more important than ever that hotels do so. And by tracking marketing spend against other KPIs (such as RevPAR), hotels can determine which methods do and don't work, and therefore which ones to continue to invest in.

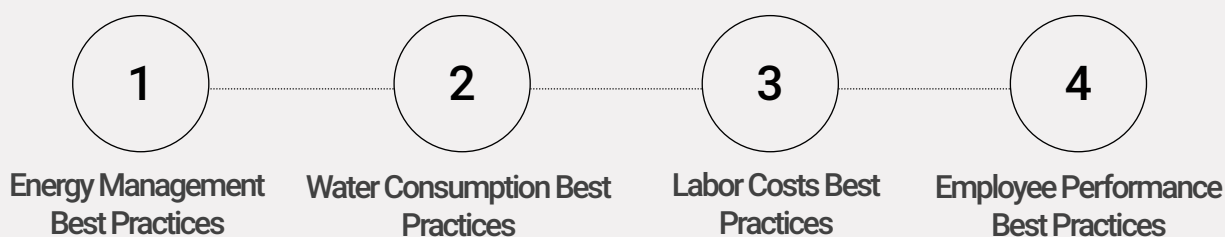
¹ Revenue Per Available Room - RevPAR: <https://www.investopedia.com/terms/r/revpar.asp>



Operational best practices

As much as monitoring the bottom-line is an essential best practice for the hotel industry, it's also imperative that hotels apply best practices toward the expenditures that offset (or effect) that bottom-line.

Specifically, successful hotels are careful to monitor, measure, adjust, and optimize their operational costs so that their RevPar and GOPPAR metrics are optimized (or maximized) accordingly. To that extent, there are several areas in which hotels need to apply operational best practices.



ENERGY MANAGEMENT BEST PRACTICES

In the hotel industry, “keeping the lights on” extends to a lot more than just, well, lighting. After all, the 2015 edition of Trends® in the Hotel Industry found that “electricity is the largest utility expense comprising 60 percent of total expenditures.

Water/service is the next largest utility cost (23.8%) followed by gas/fuel (10.6%), and steam (2.3%).”²

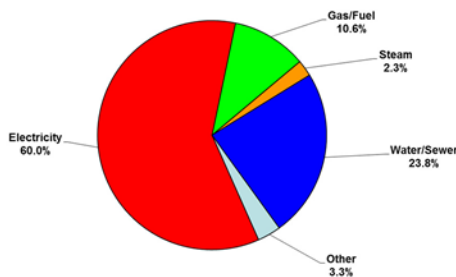
Consequently, it’s not surprising that hotel energy consumption has a considerable impact on GOPPAR.³

Indeed, the difference between having and not having an energy management system can often mean the

difference between a hotel being in the red or in the black.

Fortunately for the hotel owners, a variety of energy management technologies make it possible to not only monitor energy consumption with the utmost accuracy, but adjust and optimize their consumption in response to real-time consumption patterns.

U.S. Lodging Industry Mix of Utility Expenses - 2014



Source: PKF Hospitality Research, a CBRE Company, Trends® in the Hotel Industry

² Consumption and Pricing Influence Hotel Utility Costs: <https://www.hospitalitynet.org/opinion/4071456.html>

³ How Energy Consumption Impacts GOPPAR: <https://www.verdant.co/blog/how-energy-consumption-impacts-goppar/>

⁴ How Verdant Hotel Thermostats Increase the Resale Value of Your Hotel: <https://www.verdant.co/blog/how-verdants-hotels-thermostats-increase-the-resale-value-of-your-hotel/>

HVAC Energy Management Technology

Specifically, energy management devices now allow hotels to both use their HVAC systems more efficiently and save significantly on their energy consumption and costs. While smart thermostats and occupancy sensors monitor and respond to fluctuations in occupancy, smart energy management systems like Verdant EI use sophisticated machine learning algorithms to continuously analyze historical thermodynamics, and local weather patterns, to optimize energy consumption in real-time, all year round.

Indeed, using smart energy management systems to monitor and optimize energy consumption can reduce hotel energy costs by up to 20%, and generate some of the fastest payback periods in the industry (between 12-24 months). The ROI is so significant, in fact, that it will increase the resale value of your hotel.⁴

Type of Technology	Estimated Payback Period
Verdant Energy Management Thermostats	1-2 years
Lighting	4 years
Machinery	5 years
Other HVAC devices	6 years
Water consumption	4 years
Control devices	5 years
Building envelope	8 years

Smart Lighting Technology

Smart HVAC systems aren’t the only technologies that hotels use to save on their energy consumption. Smart Lighting technology also allows hotels to better understand their energy needs, automate their consumption, and adapt to real-time changes in occupancy.

Where some companies have cut energy costs by up to 75% by converting to a smart LED lighting system,⁵ some hotels have seen even greater savings. For instance, when the Chatwal Hotel in New York City retrofitted approximately 1,300 lamps, in the hallways, common areas, and 80 rooms, it saved more than 410,000 annual kilowatt-hours, equating to a 90% reduction in lighting energy consumption. Indeed, the Chatwal Hotel saved around \$124,255 in the first year alone.⁶

Essentially, just as smart HVAC systems such as Verdant EI use occupancy sensors and machine learning algorithms to continuously analyze demand load patterns and optimize HVAC energy consumption, smart lighting systems similarly allow hotels to set preferred lighting times, track occupancy patterns, and improve overall lighting energy consumption throughout the year.

⁵ New study shows smart lighting drastically cuts energy costs: <http://www.businessinsider.com/new-study-shows-smart-lighting-dramatically-cuts-energy-costs-2016-7>

⁶ Why Hotels are Switching (or Should Be) to LED Lighting: <http://www.greenlodgingnews.com/why-hotels-are-switching-should-be-led-lighting/of-your-hotel/>



WATER CONSUMPTION BEST PRACTICES

Energy management isn't the only best practice that hotels should employ on an operation, cost-saving level. Water consumption management is also an integral part of operating a profitable hotel.

Whether it's for guest rooms, pools, sanitation, or food/beverage service, water is an unavoidable cost of doing business in the hospitality industry. Indeed, it represents a significant piece of overhead that can and should be managed carefully.

For instance, the hospitality industry relies so much on its water consumption to keep afloat that it:

[A]ccounts for about 15 percent of total water use in US commercial and institutional facilities, according to the EPA ... [And some] estimates suggest that implementing water-efficient practices in commercial buildings can decrease operating costs by approximately percent and energy and water use by 10 and 15 percent, respectively.⁷

For this reason, many hotels now use IoT-enabled devices to conserve water and prevent water-related damage⁸.

Just consider how a single leaky toilet can cost as much as \$840/year⁹. Add the costs of any additional water damage, and it's easy to see how water can become an unnecessarily expensive business expense. By monitoring water lines with smart, low-cost IoT-enabled water meters, however, hotels can see an ROI on their water consumption in about 4 years.¹⁰

LABOR COSTS BEST PRACTICES

Of course, and possibly the most obvious part of any hotel's overhead is labor. After all, once the lights are on and the water's running, all hotel still require staff to serve guests, manage bookings,

clean rooms, and perform any number of services that are considered a fundamental part of any guest experience.

Indeed, labor is traditionally one of the most costly overhead inputs, so this KPI is crucial to healthy operation of any hotel¹¹. By closely monitoring and managing overall labor expenditures versus revenue, however, hotels can avoid over-staffing during slow seasons, days, or shifts, and maximize their performance and profitability.

EMPLOYEE PERFORMANCE BEST PRACTICES

Labor costs, of course, aren't just limited to salaries. There are also the hidden costs of employee performance. In other words, there's how much a hotel pays for each unit of labor, and then there's how much value it gets from each of those individual units. This is why:

You'll want to develop KPIs to measure your employees' performance, both in terms of their attitude and their output. For example, you might have KPIs measuring appearance and friendliness as well as KPIs measuring speed of service, cleanliness of rooms, etc. Staff turnover is another employee-related KPI that's important in any business.¹²

After all, a big part of maximizing the ROI of a hotel's staffing decisions is understanding not only the optimal number of staff to have on hand at any given time, but also the optimal output for each of those staff members.

⁷ Hotel Water Use: Are You Flushing Money Down the Drain? <https://www.environmentalleader.com/2016/07/hotel-water-use-are-you-flushing-money-down-the-drain/>

⁸ Increasing Hotel Profitability With IOT Technology: <https://www.verdant.co/whitepapers/increasing-hotel-profitability-with-iot-technology>

⁹ Toilet Leaks Cost You \$840 per Year <http://www.isustainableearth.com/water-conservation/toilet-leaks-cost-you-840-per-year>

¹⁰ Energy Management Thermostat Payback/Breakeven Periods: <https://www.verdant.co/blog/energy-management-thermostat-payback-breakeven-periods/>

¹¹ Visualizing Essential Hospitality KPIs in the Age of Big Data: <https://www.idashboards.com/blog/2017/05/24/essential-hospitality-kpis-big-data/o>

¹² KPIs for the Hospitality Industry: <https://www.storeranker.com/kpis-for-the-hospitality-industry/>

Guest experience best practices



While financial best practices allow hotel owners to measure performance, and operational best practices allow hotel owners to minimize costs, guest experience best practices allow hotels to maximize bookings and the revenues that they generate.



ONLINE REPUTATION MANAGEMENT

Since hotels must do business in the digital age, they must employ a series of best practices to monitor and manage their online reputation. Indeed, a hotel's online ratings can not only help predict future bookings, but they offer help owners valuable insight into how well a property delivered on guest expectations.

For this reason, hotels should monitor their online ratings and reviews very closely, and use that feedback to improve both their operational procedures and guest experience standards. Indeed, online reviews not only provide a source of direct feedback from guests so hotels can adjust their services to meet guest expectations, but they can (and will) impact a property's bottom line as they affect future bookings.



CUSTOMER SATISFACTION SURVEYS

Of course, the challenge with online ratings is that (1) they only appear after a guest's visit, and (2) many guests will never leave one at all. Consequently, they don't provide a complete picture of guest experiences.

This is why guest experience best practices should include conducting customer surveys.

Indeed, as StoreRanker points out, "[c]ustomer surveys are an invaluable source of information about customer satisfaction." They allow hotels to "track actions like

customer complaints to management or number of customer reviews you get on external websites." When using customer surveys, however, it's important that questions are phrased "in a way that elicits specific responses that can be tracked as KPIs."¹³

LOYALTY PROGRAM MANAGEMENT

There's no business like repeat business, and for hotels, the feedback that returning guests can offer through loyalty programs can provide valuable (and actionable) insight into a property's guest experience and how it affects a hotel's ongoing revenue performance. As iDashboards puts it:

From tracking repeat customers to tracking the value of their purchases, there are several KPIs you can use to measure the success of loyalty programs. If your loyalty program isn't meeting the goals and objectives you had for it from the outset, revamp it to be ROI driven and more enticing.¹⁴

In other words, loyalty programs can help hotels measure the guest experience of their most valuable customers, helping to optimize guest experience and secure revenue through future repeat visits.

¹³ KPIs for the Hotel Industry: <https://www.storeranker.com/kpis-for-the-hospitality-industry/>

¹⁴ Visualizing Essential Hospitality KPIs in the Age of Big Data: <https://www.idashboards.com/blog/2017/05/24/essential-hospitality-kpis-big-data/>

Doing the Right Thing(s)

A commonly cited (and often abused) distinction is that between working harder and working smarter. While working harder is about putting in more of the same effort at the same rate of return, working smarter is about understanding how to get more of a return out of the same effort (or even drop the efforts that cost more than they yield).

When it comes to the hotel industry, though, there's no shortage of established best practices to help hotel owners choose which efforts are worthwhile to streamline their operations. Indeed, these range from financial to operational to guest experience. The catch, of course, is that best practices are a bit of an all-or-nothing kind of thing.

While employing just one or a handful of these best practices will have a marginal impact on profitability, their true potential lies in the nuanced choreography of implement all (or at least most) of them. Short of that, any hotel property will always be falling short of its true potential as a profitable business and investment.

