

A Six-Step Strategy for Increasing Hotel Profitability

By **Amanda Chivers** - November 19, 2018



While the rate of revenue growth has slowed nationwide, the U.S. hotel industry has seen increasing profits for eight consecutive years. Hoteliers can narrow the disparity between lagging revenue and increasing profitability by taking proactive measures in management and operations. Here is a six-point strategy that can be used to increase profitability.

1 **Overseeing Capital Improvements**

Successful capital improvement plans begin with a thorough property assessment. This is the time to look closely at the physical condition of the property and identify capital improvements, with a laser focus on ROI. To achieve optimal returns it's important to focus on the "why" in the most-needed improvement areas. A few questions to consider: Why are improvements needed? Will a capital improvement improve the functionality of the hotel? Will these capital improvements modernize the physical structure, improving positioning amongst competitors?

Answering the "why" helps to focus efforts on the key differentiator(s) that set a property apart from its competition and increase the likelihood of success.

2 **Increasing Revenue**

Before implementing a plan to increase revenue, a thorough financial analysis of historical and current performance is in order, including benchmarking this data against the industry. In addition, conducting site tours and interviews with the management team helps to paint a detailed picture of the environment.

Guest feedback, such as in the form of satisfaction surveys and comments left on social media platforms, is an invaluable resource in identifying areas of strength and opportunities for growth. Highlighting these areas of improvement will indicate ways to elevate the guest experience, improve operations, and ultimately result in increased revenues.

Lastly, it is essential to differentiate a hotel within the competitive space in a way that truly sets it apart. This can lead to new revenue streams and augment existing ones while adding to ancillary sales. When the management

team solidifies that key differentiator, run with it. Develop a sales strategy that the entire management team can get behind to offer this new experience or service to guests.

3 Improving Operational Performance

To get the most out of a hotel's operational performance, owners and operators need to be intentional about eliminating all challenge areas and inefficiencies. What are the guests' pain points?

Once identified, focus on developing tactical objectives and processes to streamline operations and improve efficiencies. If wait times at the front desk are an issue, invest in new technology to allow guests to check in remotely. Or, if housekeeping is sub-par, increasing training or add shift supervisors. Even a review of vendors and the cleaning products used may reduce the time it takes to turn a room, which can improve operational inefficiencies and reduce labor and supply costs.

4 Driving Gross Operator Profits

Improving Gross Operator Profits (GOP) is the next step in boosting profitability and begins with evaluating the current operational costs. This review offers a better vantage point to identify areas that need trimming.

One major area for cost savings is labor. To streamline labor costs, three factors should be considered: cross-training employees so they can be multi-functional and work in different departments throughout the hotel; adjusting for seasonality, as this can impact profitability; and establishing a bench strength or depth in operations to account for people as they are promoted throughout the organization.

5 Improving Net Operating Income

Net Operating Income (NOI) is a crucial performance indicator as investors determine a property's value estimation. Strategically minimize operating expenses to ensure operators and investors are maximizing NOI.

First, start with a thorough review of insurance to evaluate coverage and pricing. Also, contest real estate taxes annually. Be sure to note any capital improvements made throughout the year or disruptions to business operations due to renovations that could impact property values. If a property has suffered damage from recent storms, be sure to take advantage of supplement income offered by filing a business interruption claim.

Next, evaluate all current energy costs and consider changing energy providers for potential savings. Sustainability investments, including implementing energy-saving technologies, can also increase NOI.

The final step in increasing NOI involves reviewing owner options for a greater ROI. Implementing depreciation and cost-segregation strategies could reduce the owner's tax liability. Additionally, structured returns such as rent payments can ensure a certain "return" to ownership on a monthly basis.

6 Improving Net Asset Value

To increase Net Asset Value (NAV), owners should perform a property valuation or Broker Opinion of Value (BOV) annually. This gives an analysis of what's happening within the property's competitive set and assesses the property value relative to the market.



It's also important to research trends that might impact the transaction market. A quick search of other properties that have transacted within the market reveals how the market is pricing deals along with the cap rates involved.

Remain vigilant. Evaluate the hotel's current position within that market every year, as the dynamic hotel market is constantly changing. Properties should always be prepared for sale even if they're not planning to hit the market. This will help ensure it is always in a strong competitive position.

By employing this six-step strategy, increased profitability is well within reach.

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