HVS

Driving GOP During Inflationary Growth and Rising Labor Costs

May 24, 2022 / By Susan Furbay

High staff turnover has always been one of the biggest management challenges faced by owners and operators in the hospitality industry. But now, as the nation is experiencing record levels of inflationary growth, rising wages, and labor shortages, the hospitality industry is encountering extreme difficulty finding workers. So, how are hotel owners and operators managing rising labor costs and inflationary risk to drive their bottom line during these unprecedented times?

Aggressive Revenue Management

Unlike other real estate classes, such as office and residential buildings, where profitability is tied to multiyear leases, hotels can reprice rooms daily, allowing inflationary risk to be passed to their customers. By adjusting room rates daily according to the projected labor expenses, hotel operators have more control over their profitability. Carefully reviewing the total revenue potential between group bookings early in the booking window and transient guests paying higher rates is another way to ensure higher revenue potential.

Unlike during past crises, such as the 2008/09 recession, the hospitality industry has successfully maintained its price point in general during the ongoing pandemic, rather than discounting deeply to create more volume. This trend has allowed average daily rate (ADR) levels, especially for select-service hotels in certain markets, to remain at or exceed 2019 levels. Hoteliers maintained strict pricing discipline with a firm belief that these unprecedented, extenuating circumstances will eventually pass.

Furthermore, strategic revenue management has forced operators to adjust distribution and marketing approaches to appeal to new traveler segments and re-price inventory without suitable historical data. This strategy has been well received, as more people are eager to spend savings on travel and are less price sensitive than they may have been in the past. To take advantage of price-insensitive guests, operators are beginning to raise the price of upgraded rooms at the time of purchase or upsell at the time of check-in. As a result, many hotels, especially those in resort destinations, are experiencing meaningful ADR growth, with revenues far exceeding 2019 levels.

Increasing Operational Efficiency

COVID-19 has changed almost every aspect of the hospitality industry and encouraged owners and operators to quickly change their operational strategies. With the introduction of mobile check-in, optional daily housekeeping, and selective food and beverage options, labor cost savings have been realized not only in hourly positions but also midlevel management.

During the onset of the pandemic, owners and brands came together to make significant efforts to change

Summary

As the nation is experiencing record levels of inflationary growth, rising wages, and labor shortages, the hospitality industry is encountering extreme difficulty finding workers. How are hotel owners and operators managing rising labor costs and inflationary risk to drive their bottom line during these unprecedented times?

Comments

FILED UNDER CATEGORIES

Economic Trends and Cycles
Hotel Management
COVID-19
United States
North America

brand operating standards to help offset increasing labor costs while continuing to meet customer expectations. While some operational changes may return to their pre-pandemic state, some changes will be permanent. According to **Truist Securities Research** and **HotStats**, while front office per occupied room (POR) costs are somewhat fixed, housekeeping POR costs are growing more in line with occupancy, indicating clear operating efficiencies. The strategic move to optional daily housekeeping services by many hotel brands and independent hotels portends signs of sustainable cost savings, though opposition to such changes by labor unions remains a challenge. For urban corporate hotels still facing uncertain profitability, a change in housekeeping services by brand standards could help the property's bottom line experience sustainable improvement.

Not only have there been operational efficiencies at property levels, but several third-party hotel management companies have also merged in recent years. These mergers will create greater economies of scale, which may also lead to higher gross profits over the long term.

Labor Cost Increases, Skilled Labor Shortages

In urban markets with heavily unionized employees, wage increases have been in the mid-single-digits, but in markets that experienced significant in-migration from urban locations during the pandemic, wages have grown upwards of 20%. To attract and retain workers, operators are offering signing, retention, and referral bonuses.

However, even with the increased wages, employees are leaving the hospitality industry for other sectors for reasons beyond pay and company culture. Given the atypical working hours for hotel positions relative to most non-service jobs, which offer traditional Monday–Friday daytime schedules, and inconsistent hours due to uncertain hotel demand, talented employees are leaving for more consistent and predictable schedules. The potentially hostile work environment, with some customers becoming angry and aggressive over mask mandates and reduced staffing levels, is another reason for on-property hotel employees to leave their jobs.

Employee Retention Factors

So, what are hoteliers doing to mitigate labor shortages across the industry?

According to **BigHospitality**, salary is the most important factor for retaining the best workers in the hospitality industry. However, factors including career progression and employee training programs, such as hospitality industry certifications and online courses, can help enhance employee retention.

With the increase of work-from-home culture brought on by the pandemic and the desire for jobs that offer such flexibility, it may be necessary for management to provide onsite childcare services to retain workers. Furthermore, a compassionate management team that understands employees' frustrations and needs would also go long way toward improving retention rates.

Lastly, more flexible U.S. government immigration policies would help reduce the labor shortage and wage growth issues somewhat. While issuing more H-2B visas would not completely solve the labor shortage, it would benefit the industry in the short term.

Conclusion

The last two years have been a time of flux for the hospitality industry, but with a high percentage of the U.S. population vaccinated and consumer confidence returning, the industry is now showing obvious signs of recovering profitability. Even with rate increases due to inflationary growth, the pent-up demand for travel is resulting in strong reservations for the summer months. As hoteliers continue to offset the growth of expenses with higher prices, operating efficiencies, and employee retention, profitability will grow measurably in the near future.

This article was originally published in the May 2022 issue of **Hotels Magazine**.