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HVS Monday Musings: COVID Cost Factor (CCF) - Are we willing to change the status quo in India?

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All hotels strive to improve and reduce costs on an ongoing basis. During the normal course of operations, hotels try to achieve this by implementing various techniques, such as using alternate products, implementing process improvements, enhancing inventory management, and evaluating more efficient equipment, which allow them to save certain costs during the year. But the question here is whether these efficiencies are significant enough. Do hotels think of making significant changes in their cost reduction strategies that can provide a larger impact on their profitability? The answer, in most cases, seems to be a 'no', especially while the going is good, because implementing 'change' is often complex, and maintaining 'status quo' with some more manageable changes, is easier.

In the current pandemic, the industry needs to change this mindset as it struggles to stay afloat. In their quest to reduce costs, most hotels have implemented some quick changes to their largest cost components (i.e., compensation and energy) in the last few months, as few other operational costs are variable in nature, anyway.

The pandemic has forced the industry to evaluate and scrutinize their cost structures, and this is perhaps an opportune time to look at making some substantial changes. However, are hotel owners and brands willing to work in this direction? This would mean moving away from status quo and taking what may initially seem to be a difficult journey convincing key stakeholders, but one that could bring about much joy to the business.

Some of the possible cost-saving opportunities that can be evaluated by hotel owners and brands include:

1. Inventory Management – Brands that have multiple hotels in the same city or location, which are sometimes only 5-10 kms apart. So, should all of them maintain the same levels of spare parts in their inventory? If there are ten generator sets between the hotels, especially if all are from the same OEM (original equipment manufacturer), do all the hotels need to maintain a similar level of spare parts? What are the chances of the same spare part being needed at all locations at the same time? Hotels should look at managing not only this, but many other aspects of inventory management across properties, especially where the OEMs are the same, as this will ensure prudent cashflow management.

Summary

Most hotels have implemented quick cost-saving changes to their largest cost components i.e. compensation and energy costs as they try to stay afloat during the pandemic. However, the industry needs to take a step further by evaluating and scrutinizing their cost structures even deeper to make some radical changes. Are we ready & is it time?

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2. Production – Taking a cue from the above discussion, should hotels under the same owner or brand consider having the Garde manger, bakery production and many other kitchen production activities at a central location, which is perhaps within 5-10 kms of each property? This would mean lesser space allocation for kitchens (a non-revenue generating area) and the partnering hotels can work out a methodology of allocating costs based on requirements at each of the property. Several retail food outlets today have central kitchens, with most of the products being manufactured and distributed centrally to not only save costs, but to also maintain consistency. These cost savings are the result of operating efficiencies, economies of scale by procuring larger quantities of raw material at a single location, and last but not the least, better real estate usage.
3. Laundry – Today, several hotels outsource their laundry. Yet, there are many other cases where a single brand still operates multiple laundries, even within the same city. Is it not high time for hotels within the same brand to look at the possibility of combining their laundry operations? Perhaps, it is time for the industry to build a central laundry at the outskirts of city limits to take care of the entire laundry requirements for all the partnering hotels. Will it not be more efficient and help save on premium spaces in hotels, which are otherwise used to build a laundry? This could be a huge shift from how the industry operates today. The main challenge in implementing this idea will be to determine the key stakeholders who are willing to take up the initiative of planning, building, and managing these operations. The question is whether industry stakeholders are willing to do this in the best interest of the business, if it results in significant cost savings. The ITeS (Information Technology Enabled Services) industry has already taught us that centrally managed processes can bring in efficiencies due to scale and consistency, and can deliver better quality if the KPIs are well defined and managed.
4. Procurement – Many chains already have central purchasing/negotiation contracts in place as part of their model, which helps build efficiencies. Can hotels take a step further and evaluate AMC (annual maintenance contract) negotiations with OEMs, especially for large equipment such as elevators and generator sets, etc.? Can hotel chains look at larger negotiations on property insurance or commercial general liability insurance for the entire group? What else can be centralized to take advantage of these strategies?
5. Third-party vendor partnerships - Hotels can also use this time to develop professional, good-quality, third-party vendor partnerships for linens, butchery, and Garde manger outsourcing as is a common practice in developed markets.

It's time for hotels to look beyond just their own operations and requirements, and collaborate to determine solutions that can bring more impactful efficiencies to the industry as a whole, even if it comes with some level of pain initially, as change management is not always easy. The idea is to continue to build efficiencies that can negate inflation so that any increase in the top line results in a similar growth in the bottom line as well.