

# Maximizing Hotel Performance in the Year Ahead

## Hoteliers Should Focus on Operating Expenses

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During the pandemic, out of great necessity, hotel operators found new ways to creatively trim operating expenses.

Some of these adjustments included labor optimization and compensation adjustments; more efficient utility usage and laundry practices; restrained ordering of supplies, even when we could get them; marketing expenses — everything was in play.

While there has been some understandable relaxation coming out of the pandemic, many hoteliers are determined to carry these lessons forward. With some economic uncertainty in the future and potential for shocks relating to the upcoming presidential election and ongoing wars in Europe and the Middle East, it is not time to abandon expense discipline. Even as revenue per available room is forecast to increase across most markets in 2024, the rise in expenses is making it more difficult to achieve the same profit margins.

Thus, as we prepared budgets for the year ahead, a major theme across the board is expense control, particularly, how to sustain profitability with rising costs. Labor, including continued use of contract labor, and cost of goods are leading the pack in expenses, with inflation playing a significant role. There are also continued pressures from expenses such as property taxes, where jurisdictions are facing strained post-pandemic budgets; and insurance, especially property insurance as extreme weather events continue to dramatically affect rates across many regions.

There are several ways operators, asset managers, and hotel owners are combating these issues, including in the areas of technology, labor and guest services.

## Embracing Technology

It can be a balancing act, finding technology that saves labor costs and enhances the guest experience without being too costly to acquire and implement. Possibilities range from smart utilities such as lights that turn off when guests leave the room to housekeeping robots.

Perhaps the most notable technologies are guest-facing ones such as mobile check-in and check-out; in-room tablets for guest requests; or guest chat systems. These systems not only reduce transactions at the front desk but can be wed to loyalty programs, allowing mining of valuable marketing data. With

well-defined privacy protocols and cybersecurity, the future is now.

## Evaluating Labor

Most hoteliers are experiencing a labor crunch as available workers continue to shrink in many markets along with increased pay for those who are hired. Technology and lean housekeeping policies can help.

However, in the shorter term, hospitality organizations will try to sustain reduced head counts and we expect continued cross-training supporting creative deployment of staff at the property level.

In this challenging environment, property managers will also look to rely less on contract labor, which is more expensive than in-house labor, while potentially hampering an organization's brand and cohesiveness.

Longer term, many brands are redesigning platforms to foster more efficient operations, such as placing the laundry near the front desk, and to require less full-time equivalent (FTE) staff, not to mention the properties being less costly to build and maintain.

## Adjusting Guest Amenities

This is another area like staffing where hoteliers must carefully balance costs against potential impact on the guest experience and guest satisfaction.

Clearly, we expect opt-in daily housekeeping, less turndown service, and more frugal use of linens and other supplies to continue with guest sensitivity being closely monitored.

On the other hand, when a guest is paying premium prices for more upscale rooms, we can't fault them for expecting daily housekeeping service. Food-and-beverage service will come under close scrutiny at many properties. F&B is expected to at least pay its way or, better yet, generate positive net revenues, as opposed to being a "loss leader" amenity.

Property and asset managers will also pay close attention to their ability to enhance revenues through charges for a number of items, including pets, room upgrades, early check-in or late departure, or resort/destination fees.

Overall, even as we forecast growth for the coming year from a total revenue perspective with increased costs across the board, net operating income will come with a high-power microscope. The times call for astute counter-measures that enhance NOI without jeopardizing guest satisfaction or staff morale.

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