

A Hotelier Plays Total Football

The following text is from a speech my partner Michel Geurts gave at the 2012 meeting of HOSTA, a Dutch Hotel Association. Michel is a gentle, soft spoken man, committed to integrity, plain language and yes, figures. He prefers to stay in the background, and devotes himself to the smooth functioning of the business. With me, on the other hand, being of a more 'noisy disposition', that of an explorer and adventurer, a great partnership was formed over the years. His motto; soft with people, hard on agreed procedures. With his technical background he has developed an uncanny insight in the 'engineering' of the Hotel industry. The following text is not what is likely to appear on the evening news, but if you want to understand (financial) success in the hotel business, Michel's approach is what you should read, and, more importantly, understand. Michel's pro-active attitude reflects what I argued for in another white paper: he is the player, not the ball.

Openness and the Sharing of Responsibility

Presented by Michel Geurts, Inntel Hotels

Ladies and Gentlemen, Colleagues

Recently, I was engaged in conversations with bankers about the financing of a new hotel project. I had shared with them some of the financial results of Inntel Hotels and, of course, my prognosis for the future. The recession of 2009 was clearly visible in these numbers. The RevPAR, the yield per available room, had declined by 17%, and earnings (before interest, taxes, depreciation and amortization) were down by 25%. Had our costs remained the same, those earnings would have gone down by 35%.

I was then asked the question: how is it that your costs went down when your revenues went down?

I was somewhat dumbfounded by the question. We hadn't done anything specific, we merely carried on with our work. I explained that we could attribute our success to our internal organization. Especially to our internally developed information system. With it, our people on the floor were able to control costs themselves without having to solve puzzles or receiving orders from their managers. In an average hotel of somewhat larger size, gross earnings are about one-third of the revenue. Wages and salaries take up another one-third, an amount similar to other operational expenses.

Our experience has shown that, overall, two-thirds of our salary expenses, and one-third of operational expenses can fluctuate in step with our revenues. This means that one-half of a drop in revenues can be offset by lowered costs. And vice versa: when revenues increase, one-half of that revenue yield stays with us.

Strong revenue fluctuations are a daily occurrence in the hotel and restaurant industry. Occupancy percentages go up and down depending on the day of the week and month of the year, yielding different revenues in, for example, a restaurant. Meeting rooms are either totally empty or fully booked.

To reach good results in an environment of constantly fluctuating demand requires careful management of expenses. Management of wage and salary expenses is most effective. Sending people home when you get to be less busy yields only slender contributions. And as supervisor you are immediately confronted with another important element: the quality of service. When the boss makes a duty roster that says that people can go home, the consequences of that are his responsibility.

When we make our budgets, employee duty rosters, and reports, we at Inntel focus primarily on productivity, which we define as revenue divided by manhours. Thus, the number of people used, and their pay determine total wage costs. Productivity needs to be defined clearly, unambiguously. We can't allow staffing levels to be influenced by illnesses or vacations by co-workers. Or that because of payments of vacation moneys the manday costs suddenly go up. Such disruptions of the calculation of productivity or wage costs per manday need to be eliminated. Therefore, we at Inntel define mandays as days actually worked. Sick pay, and holiday and vacation payments are made from a special account that is funded by charges that we assess ourselves on wages paid out. And we watch this account constantly. Department employee duty rosters are not solely created based on routine or experience. The manager first looks at historical data to determine the average demand for a given day. He adds to that what experience tells him to expect in extra demand. Next he puts together the duty roster, and checks productivity against the budget. The budget per month and per year, the budget that he himself helped create at the end of the previous year. He, the department manager, then knows that the desired quality of service can be delivered, and he is able to explain the formula to everyone.

The result is that staffing levels fluctuate with the level of demand, and quality is maintained. The duty roster needs to be set on a timely basis, and we need employees who are willing to work flexible schedules. Everyone can thus be satisfied and yet wage costs are effectively controlled. Other costs are treated in a similar way. Every department is responsible for managing its costs. This is possible only if by deviations from the budget every cost component is clear and no puzzle-solving is needed. The latter is not very useful either if the General Manager himself seeks to control costs.

At Intel every department controls as many as nine ledger accounts. These could be for laundry costs, restaurant operational expenses, and for expenditures for office supplies, maintenance materials, storage, etc. The department manager is responsible, but that responsibility can be delegated to an assistant manager or a senior employee. He places the orders. He manages and codes the invoices. Others are not allowed to assign costs to his department, and the administration sees to it that this does not happen. Monthly account summaries allow the manager to clearly view differences between actual experience and the budget. Deviations are clearly noticeable.

In practice this works simply and effectively. And it's more fun to place orders in the context of a budget than based on gut feelings, without knowing if it's justifiable.

And so, in 2009, there was no need to introduce special measures to lower costs as earnings results were not dropping greatly as a result of lower occupancy rates. The organization just kept doing what it always did and held costs within bounds. At most we paid a bit more attention.

Central to the success of an internal organization like this are openness and the delegation of responsibility. Provide insights in business processes and place them in a framework that permits understanding. Most serious-minded people enjoy organizing matters in an exceptional way, something they could not do without the information our systems provide. And, of course, this applies not merely to cost control. Also, to help staff generate the needed revenues, and even beyond that, goal oriented information is indispensable. Yield and RevPAR are concepts that are widely employed in the Netherlands. And to make these ideas even clearer, detailed information is needed. First, a clear understanding of market segments from which our guests are drawn, that may have things in common and may be approached in a similar manner. Their booking behavior, their spending habits for lodging and related expenses, and the services they desire all need to be known. Also, of course, the contribution of each segment to the total revenue, and the market opportunities available to increase that contribution.

Here too, these processes are the keys to success: relevant information, a clear framework, and openness, so that everyone can contribute. However, we never forget that our guests are the focus of our efforts, they have to feel welcome with us, as demonstrated by our friendly staff, so that they have an enjoyable stay.

A long time ago, in reference to a different game, Rinus Michels [a former Dutch soccer player and famous championship coach] coined this approach TOTAL FOOTBALL. So, in effect, I wasn't talking about anything new.

Thank you for your attention.

- English text translation and editing by Dagmare Houniet MA -