

## ROOMS DEPARTMENT OPERATIONS Controllable and Profitable

*by: Robert Mandelbaum*

A hot restaurant or trendy bar may provide some panache for a hotel. Golf courses and spas are fun to operate and certainly popular with guests. However, when all is said and done, it is renting and servicing guests rooms that drives the revenues and profits of hotels.

In 2005, guest room rental revenue averaged 68.0 percent of the total revenue earned by the typical U.S. hotel. This ratio ranged from 97.1 percent at limited-service properties to 52.6 percent at resorts. As for contribution to the bottom-line, the rooms department profit equaled 84 percent of the average hotel's departmental income and 187 percent of the net operating income.

Profitability is driven by revenue management and expense control. An abundant quantity of information is available for hotel owners and operators to study regarding rooms revenue. Daily, weekly, and monthly analysis is conducted by most every hotel in the country regarding the property's share of occupancy, ADR, and RevPAR within its competitive market. In an effort to provide a better understanding of the expense side of the profit equation, we have examined rooms department expense data from our *Trends in the Hotel Industry* database for the period 1996 through estimates for 2006.

### **Variable Equals Controllable**

A large portion of rooms department expenses can be classified as variable expenses. Variable expenses fluctuate in proportion to the volume of business. In the rooms department the variable measures of business are the number of rooms occupied, as well as the revenue received for renting the rooms.

From 1996 through 2006, rooms department expenses averaged 25.8 percent of rooms revenue. This expense ratio ranged from a low of 24.9 percent in 1998 to a high of 27.9 percent in 2003. The tight range of this expense ratio is illustrative of the high degree to which expenses vary within this department.

A look at the components of the rooms department expenses also indicates the degree to which costs will vary with the number of rooms rented, as well as the revenue earned. In 2006, salaries, wages, and employee benefits averaged 61.7 percent of the total department expenses. A minimum number of personnel need to be on hand every day. However, management can certainly adjust the staffing of desk clerks, bellman, room attendants, and laundry workers to be consistent with the volume of check-in/check-out activity, as well as the occupancy rate.

Laundry, linen, and guest supplies add up to an average of 10.3 percent of departmental expense. These items are consumed and expensed in direct proportion to the number of rooms occupied.

# TRENDS



## IN THE HOTEL INDUSTRY

Other major costs within the rooms department are travel agent commissions and reservations expenses (13.7%). These expenses are highly variable since they are typically charged to the hotel as a percent of revenue.

### Limited Expense Growth

The ability to control expenses has helped rooms department managers limit expense growth over the years. From 1996 to 2006, labor related costs within the rooms department grew at a compound annual rate of 2.9 percent. This is less than the 3.4 percent overall growth rate for total hotel labor costs during the same period. Concurrently, laundry, linen, and guest supplies increased just 2.7 percent.

Further analysis of the labor data reveals that costs during this period have increased greater when measured on a per-available-room (PAR) basis versus a per-occupied-room (POR). This is especially true during the past three years when rooms department labor costs have increased an annual average of 6.5 percent on a PAR basis, as opposed to just 3.3 percent on a POR basis. We attribute this disparity to the high threshold of occupancy at most hotels that covers the fixed component of rooms labor, as well productivity enhancements in the procedures used to clean rooms and launder sheets, towels, and pillow cases.

The two rooms department expense items exhibiting the greatest percentage growth during the past 10 years were travel agent commissions and reservations expense (5.3%), and the cost of offering complimentary food and beverage (7.9%). The growth in commissions and reservation expenses can be attributed to the increased use of "dot.com" wholesalers and reservation agents to sell rooms since 2001. As hotel companies continue to re-examine their distribution strategies and renegotiate contracts with the internet intermediaries, look for this expense to moderate.

Due to the popularity of the "value-add" represented by free food and beverage, we have observed an increasing number of hotels beyond the limited-service and all-suite segments begin to offer complimentary breakfasts and cocktail receptions. For those properties that have historically provided these gratis offerings, national chain mandates have required an upgrade in the quality and quantity of the food and beverages served at their complimentary breakfasts, concierge floors, and cocktail receptions.

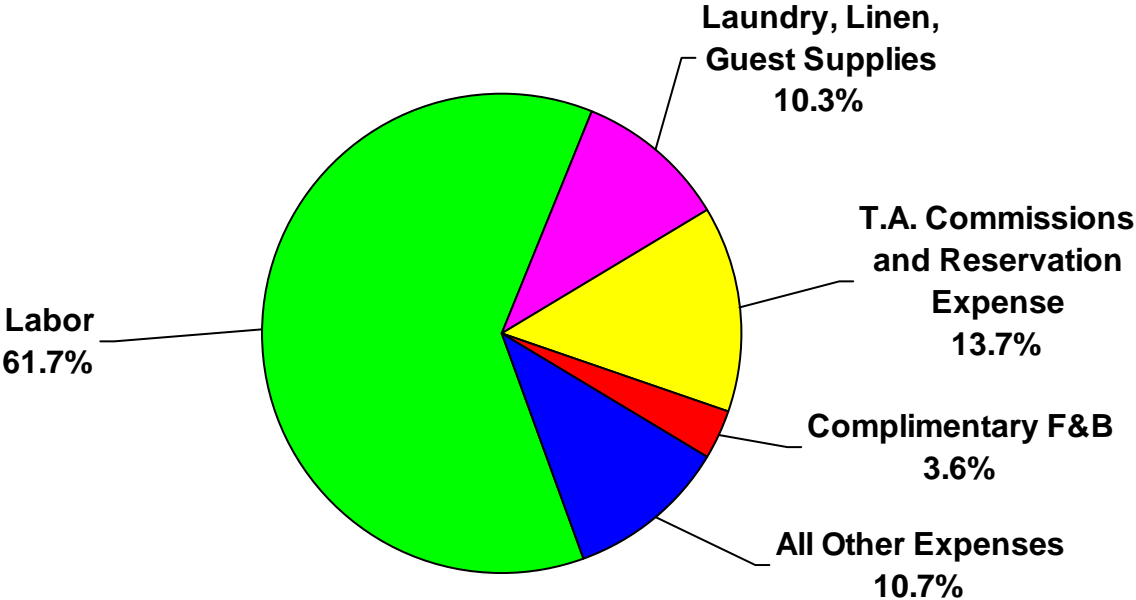
Making money in the rooms department may be relatively easy compared to the other revenue generating departments of a hotel. However, while the day-to-day operations in this department may require less management attention, the profitability of the rooms department is critical to the overall financial success of the entire property.

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# Rooms Department Expenses

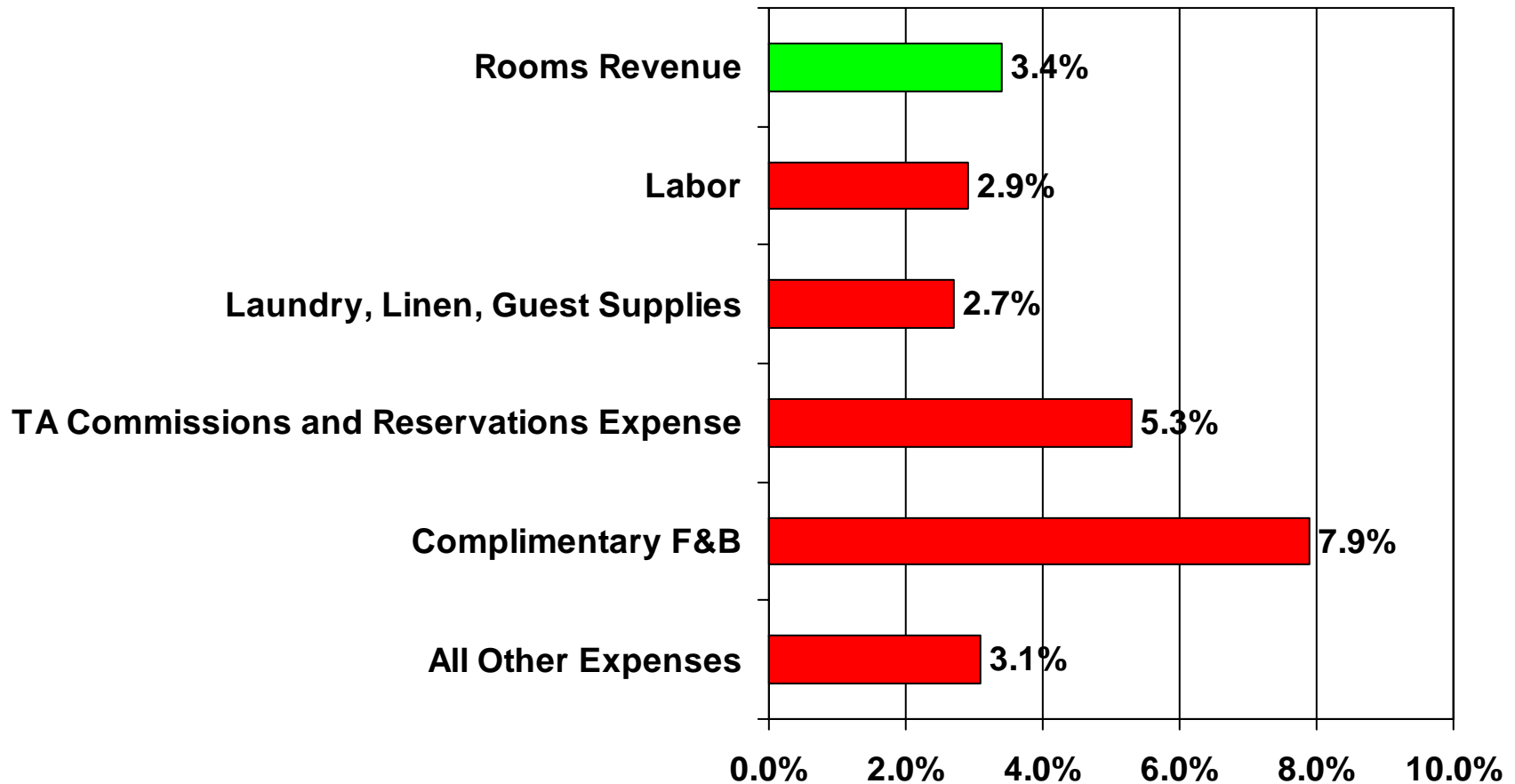
Percent of Total Department Expenses  
2006 Estimate



Source: PKF Hospitality Research

# Rooms Department Expenses Dollars Per Available Room

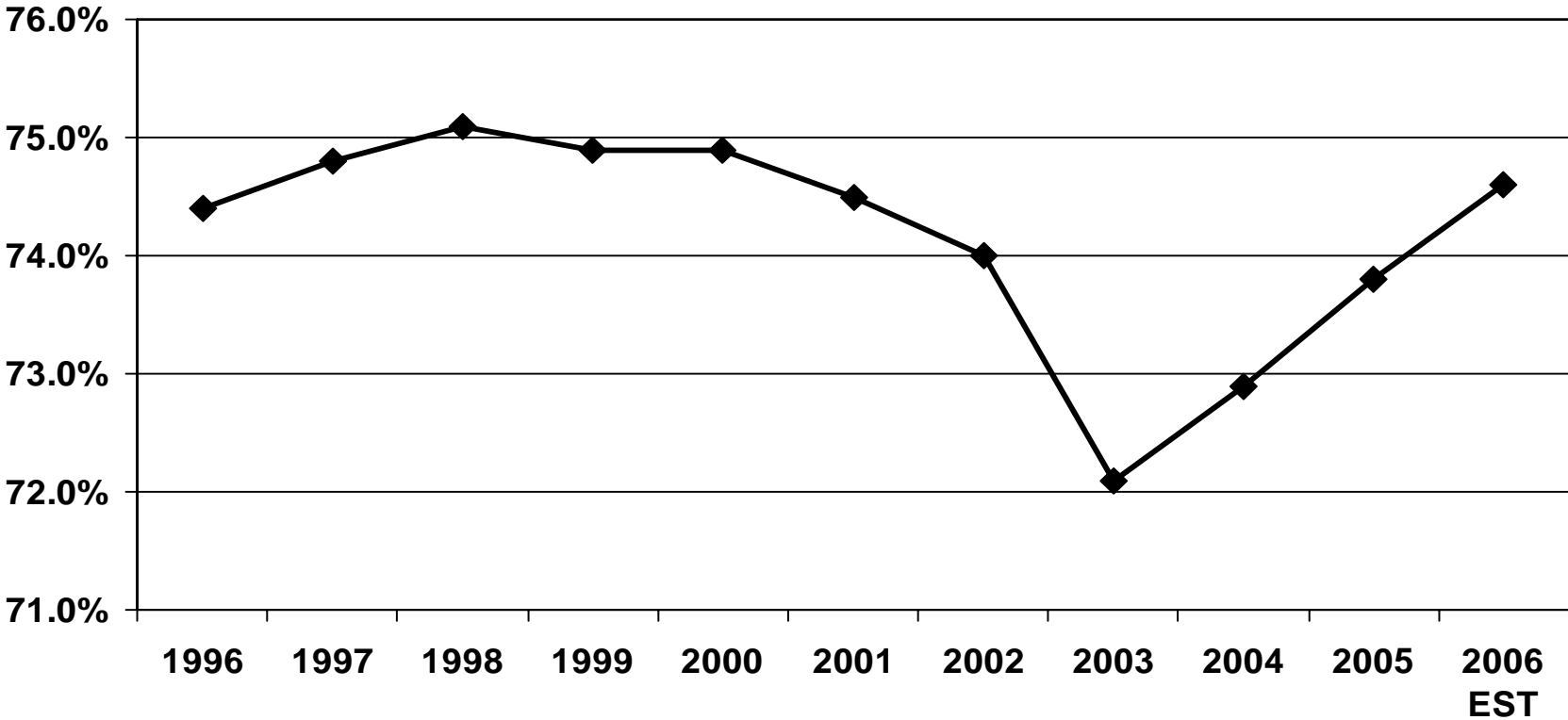
Compound Annual Growth – 1996 to 2006 EST



Source: PKF Hospitality Research

# Rooms Department Profit Margin

Percent of Rooms Revenue



Source: PKF Hospitality Research

# TRENDS

IN THE HOTEL INDUSTRY



## Houston - For the Month of February

	Occupancy			Average Daily Rate			RevPAR		
	2006	2007	Difference	2006	2007	%Var	2006	2007	%Var
<b>Texas</b>	72.5 %	70.3 %	-2.2	\$99.06	\$106.32	7.3 %	\$71.84	\$74.73	4.0 %
<b>Houston Area</b>	74.6 %	71.6 %	-3.0	\$104.55	\$106.54	1.9 %	\$77.94	\$76.27	-2.1 %
<b>Houston</b>	76.3 %	73.6 %	-2.7	\$107.41	\$108.23	0.8 %	\$81.99	\$79.65	-2.9 %
<b>CBD Houston</b>	74.1 %	66.7 %	-7.4	\$162.67	\$166.26	2.2 %	\$120.50	\$110.91	-8.0 %
<b>Galleria/Post Oak</b>	78.6 %	77.0 %	-1.6	\$146.21	\$143.56	-1.8 %	\$114.95	\$110.57	-3.8 %
<b>Texas Medical Center</b>	87.5 %	73.8 %	-13.7	\$102.88	\$112.89	9.7 %	\$90.03	\$83.36	-7.4 %
<b>Intercontinental</b>	81.4 %	78.4 %	-3.0	\$68.76	\$73.66	7.1 %	\$55.97	\$57.76	3.2 %
<b>Hobby Airport</b>	71.2 %	76.1 %	4.9	\$55.75	\$52.38	-6.1 %	\$39.69	\$39.86	0.4 %
<b>Clear Lake</b>	76.2 %	72.7 %	-3.5	\$77.48	\$84.42	9.0 %	\$59.02	\$61.37	4.0 %
<b>Southwest Houston</b>	75.0 %	69.0 %	-6.1	\$116.19	\$111.58	-4.0 %	\$87.20	\$76.94	-11.8 %
<b>Stafford / Sugar Land</b>	74.2 %	75.6 %	1.4	\$64.94	\$66.79	2.9 %	\$48.19	\$50.47	4.7 %
<b>Westchase</b>	79.2 %	81.9 %	2.6	\$89.03	\$90.59	1.8 %	\$70.55	\$74.17	5.1 %
<b>Katy Freeway</b>	71.7 %	69.1 %	-2.5	\$71.43	\$72.16	1.0 %	\$51.20	\$49.88	-2.6 %
<b>Northwest</b>	68.2 %	73.2 %	4.9	\$81.50	\$85.36	4.7 %	\$55.60	\$62.46	12.3 %
<b>Reliant Park/South Mai</b>	82.5 %	71.6 %	-10.9	\$67.86	\$85.08	25.4 %	\$55.97	\$60.90	8.8 %
<b>East/Baytown</b>	76.8 %	72.5 %	-4.4	\$58.21	\$61.00	4.8 %	\$44.74	\$44.22	-1.2 %
<b>Montgomery Co.</b>	68.6 %	61.5 %	-7.1	\$94.13	\$103.19	9.6 %	\$64.59	\$63.45	-1.8 %
<b>Galveston</b>	61.3 %	62.8 %	1.5	\$102.37	\$109.98	7.4 %	\$62.72	\$69.05	10.1 %
<b>Beaumont</b>	86.5 %	71.6 %	-14.9	\$88.73	\$93.07	4.9 %	\$76.72	\$66.64	-13.1 %
<b>Bryan/College Station</b>	56.0 %	57.1 %	1.0	\$59.16	\$63.44	7.2 %	\$33.15	\$36.20	9.2 %
<b>Room Rate</b>									
<b>Under \$45.00</b>	63.6 %	69.2 %	5.6	\$36.91	\$36.76	-0.4 %	\$23.48	\$25.45	8.4 %
<b>\$45.00 to \$60.00</b>	69.1 %	60.6 %	-8.5	\$55.09	\$53.09	-3.6 %	\$38.06	\$32.20	-15.4 %
<b>\$60.01 to \$80.00</b>	79.0 %	73.3 %	-5.7	\$70.19	\$70.28	0.1 %	\$55.47	\$51.54	-7.1 %
<b>\$80.01 and Over</b>	76.4 %	72.7 %	-3.7	\$133.55	\$131.73	-1.4 %	\$102.05	\$95.75	-6.2 %
<b>Property Size</b>									
<b>Under 120 Rooms</b>	72.9 %	70.7 %	-2.2	\$75.82	\$81.45	7.4 %	\$55.27	\$57.59	4.2 %
<b>120 to 200 Rooms</b>	74.0 %	72.1 %	-1.8	\$74.89	\$76.63	2.3 %	\$55.38	\$55.25	-0.2 %
<b>201 to 300 Rooms</b>	81.2 %	69.4 %	-11.8	\$114.88	\$122.90	7.0 %	\$93.26	\$85.27	-8.6 %
<b>301 rooms and Over</b>	74.3 %	72.3 %	-1.9	\$143.73	\$143.35	-0.3 %	\$106.77	\$103.70	-2.9 %
<b>Property Type</b>									
<b>All Suite</b>	84.3 %	76.0 %	-8.3	\$121.63	\$126.28	3.8 %	\$102.59	\$95.99	-6.4 %
<b>Economy</b>	59.1 %	61.9 %	2.8	\$39.47	\$39.56	0.2 %	\$23.33	\$24.50	5.0 %
<b>Extended Stay</b>	75.9 %	81.0 %	5.0	\$63.02	\$65.49	3.9 %	\$47.86	\$53.03	10.8 %
<b>Full Service</b>	74.5 %	70.9 %	-3.6	\$137.14	\$139.73	1.9 %	\$102.24	\$99.12	-3.0 %
<b>Limited Service</b>	75.4 %	70.7 %	-4.7	\$77.40	\$84.37	9.0 %	\$58.35	\$59.62	2.2 %

Data includes information from 117 participating properties with 20,038 rooms.

# TRENDS

IN THE HOTEL INDUSTRY



## Houston - For the 2 Months Ended February

	Occupancy			Average Daily Rate			RevPAR		
	2006	2007	Difference	2006	2007	%Var	2006	2007	%Var
<b>Texas</b>	68.3 %	65.4 %	-2.9	\$98.38	\$104.67	6.4 %	\$67.24	\$68.49	1.8 %
<b>Houston Area</b>	69.1 %	65.8 %	-3.3	\$101.84	\$104.57	2.7 %	\$70.34	\$68.80	-2.2 %
<b>Houston</b>	71.2 %	68.0 %	-3.2	\$104.09	\$106.00	1.8 %	\$74.13	\$72.11	-2.7 %
<b>CBD Houston</b>	67.8 %	62.7 %	-5.1	\$157.71	\$169.57	7.5 %	\$106.91	\$106.30	-0.6 %
<b>Galleria/Post Oak</b>	74.5 %	70.9 %	-3.7	\$135.45	\$137.40	1.4 %	\$100.95	\$97.36	-3.6 %
<b>Texas Medical Center</b>	80.9 %	66.9 %	-14.1	\$107.67	\$115.93	7.7 %	\$87.13	\$77.52	-11.0 %
<b>Intercontinental</b>	78.6 %	74.7 %	-3.9	\$69.02	\$74.05	7.3 %	\$54.22	\$55.28	1.9 %
<b>Hobby Airport</b>	67.6 %	66.4 %	-1.2	\$78.82	\$54.57	-30.8 %	\$53.30	\$36.26	-32.0 %
<b>Clear Lake</b>	61.8 %	60.7 %	-1.1	\$85.38	\$88.03	3.1 %	\$52.73	\$53.40	1.3 %
<b>Southwest Houston</b>	71.0 %	61.6 %	-9.4	\$106.01	\$109.39	3.2 %	\$75.25	\$67.34	-10.5 %
<b>Stafford / Sugar Land</b>	70.8 %	71.7 %	0.9	\$64.02	\$66.15	3.3 %	\$45.34	\$47.45	4.7 %
<b>Westchase</b>	73.0 %	77.5 %	4.6	\$85.36	\$87.64	2.7 %	\$62.29	\$67.95	9.1 %
<b>Katy Freeway</b>	67.5 %	63.0 %	-4.6	\$87.68	\$83.32	-5.0 %	\$59.20	\$52.45	-11.4 %
<b>Northwest</b>	64.1 %	69.8 %	5.7	\$77.94	\$83.59	7.2 %	\$49.92	\$58.30	16.8 %
<b>Reliant Park/South Mai</b>	78.1 %	68.8 %	-9.3	\$71.67	\$83.10	15.9 %	\$56.00	\$57.19	2.1 %
<b>East/Baytown</b>	70.9 %	65.7 %	-5.2	\$58.30	\$61.20	5.0 %	\$41.34	\$40.23	-2.7 %
<b>Montgomery Co.</b>	62.0 %	57.8 %	-4.2	\$90.91	\$104.09	14.5 %	\$56.37	\$60.13	6.7 %
<b>Galveston</b>	54.3 %	53.3 %	-1.1	\$103.92	\$108.66	4.6 %	\$56.48	\$57.89	2.5 %
<b>Beaumont</b>	89.1 %	71.0 %	-18.1	\$86.97	\$87.60	0.7 %	\$77.48	\$62.16	-19.8 %
<b>Bryan/College Station</b>	49.4 %	49.4 %	-0.0	\$59.10	\$62.49	5.7 %	\$29.21	\$30.87	5.7 %
<b>Room Rate</b>									
<b>Under \$45.00</b>	59.7 %	63.7 %	4.0	\$36.64	\$35.36	-3.5 %	\$21.89	\$22.53	3.0 %
<b>\$45.00 to \$60.00</b>	65.8 %	54.8 %	-11.0	\$54.87	\$53.21	-3.0 %	\$36.10	\$29.18	-19.2 %
<b>\$60.01 to \$80.00</b>	73.6 %	67.1 %	-6.4	\$69.47	\$70.27	1.2 %	\$51.12	\$47.19	-7.7 %
<b>\$80.01 and Over</b>	70.0 %	67.1 %	-2.9	\$127.36	\$130.43	2.4 %	\$89.17	\$87.51	-1.9 %
<b>Property Size</b>									
<b>Under 120 Rooms</b>	68.4 %	65.7 %	-2.7	\$77.24	\$81.85	6.0 %	\$52.82	\$53.79	1.8 %
<b>120 to 200 Rooms</b>	69.2 %	66.5 %	-2.7	\$75.01	\$76.96	2.6 %	\$51.91	\$51.19	-1.4 %
<b>201 to 300 Rooms</b>	70.3 %	60.7 %	-9.6	\$110.28	\$114.60	3.9 %	\$77.56	\$69.54	-10.3 %
<b>301 rooms and Over</b>	68.9 %	67.0 %	-2.0	\$136.23	\$141.72	4.0 %	\$93.92	\$94.91	1.1 %
<b>Property Type</b>									
<b>All Suite</b>	78.9 %	70.5 %	-8.4	\$114.08	\$125.02	9.6 %	\$89.96	\$88.12	-2.0 %
<b>Economy</b>	54.6 %	56.3 %	1.6	\$39.12	\$39.31	0.5 %	\$21.37	\$22.11	3.5 %
<b>Extended Stay</b>	72.5 %	76.4 %	3.9	\$63.90	\$65.36	2.3 %	\$46.35	\$49.94	7.7 %
<b>Full Service</b>	67.5 %	64.2 %	-3.2	\$130.56	\$135.85	4.0 %	\$88.09	\$87.25	-1.0 %
<b>Limited Service</b>	71.7 %	65.7 %	-6.0	\$75.73	\$82.77	9.3 %	\$54.30	\$54.35	0.1 %

Data includes information from 117 participating properties with 20,038 rooms.