

## New Deal Between Hotel Owners and Brands that Manage Hotels

A lot has been speculated about what could and should change because of the pandemic. There is one aspect of the hotel business that desperately needs to change and the Covid crisis is not to blame. However, it will most certainly speed things up.



There is a need to have a new way of measuring performance in the hotel and hospitality industry.

To get to a new point first see where the industry is today. The one aspect of the business that has garnered the most attention in the past 30 years is the measurement of REVPAR.

That number and the index of that number's performance has been the most studied and reported on in the hotel universe. This number and the hyper focus of investors, brands, as well as owners, has revolutionized the industry and created a whole slice of quasi science – the *revenue manager* – that did not exist some 20 years ago. REVPAR and index revolutionized the industry, and they are here to stay.

Most brands and some management companies have performance clauses in their agreements with owners that indicate a level of REVPAR index to be maintained, usually 100 percent. Slip below this level for too long and down comes the flag and away go the fees. This ensures the owner gets their fair share

of value as it relates to how the hotel is sold and marketed, and the resulting room revenue. This makes a lot of sense but it is only measuring room revenue, occupancy and rate.

The new deal proposed here is the need for a new number to emerge and be adopted in the same way REVPAR and REVPAR index was and is. This new deal applies to managed hotels by brands, management companies, and their owners. The new mega number that sits at the front door of the new deal is GOPPAR. What is the profit per room available after all expenses within the control of the manager and how does that index to your competitive set of hotels?

What the last 10 years plus Covid have shown hotel owners is that it is not enough to drive revenues. What matters to owners is profit. The proper way to measure the profit achieved from your hotel is to index your properties results to your competitive set of hotels. The same way you index REVPAR. Once this is established as the “new deal” management companies and brands will be capable of measuring their ability to drive profits for owners.

Today no such arrangement exists.

Think about how the adoption of GOPPAR index would change the hotel business for brands and management companies.

Here are a few aspects that I think would take hold because of a new deal:

1. **Technology.** So far, the industry is in the ditch and many ask *Why?* Without a direct tie to their profit's management, companies have had no real incentive to invest in any meaningful way. With the new deal and the need to create the customer's digital experience and now Covid touch points being the focus, management companies can no longer sit on the sidelines. If they do, they are going to be left behind.
2. **Management companies need to be known for something.** After all, brands sell the same thing – expertise. The brand with the greatest bench strength of talented profit focused managers will get the best results and the index will prove it. It is no longer sufficient to hide behind standards and service levels. The adage that the company just needs to look after customers and the money will look after itself is shot clean out of the water.
3. **A management company's value in the market is the multiple of their profits.** If you want to grow the value of the brand, then you must have more profitable customers. Is it finally time to take off the training wheels?
4. **With a GOPPAR and index there is now a perfectly level playing field.** Perhaps a similar approach in the past was the intended use of the incentive fee. The problem with that was

every other one was calculated differently, depending upon the asset's debt and financial reporting structure. Those obnoxious line items that live below GOP and above NOI. Perhaps the incentive fee of the future is a multiple of a positive index above 100 percent.

5. **Owners pay so invest in the development of operational leaders financial abilities.** Today the reality for an owner of a hotel that is managed by someone else is, the owner pays for everything. All the training, the standards, the brand programs, you name it, and the owner pays. In a new deal where profit levels are indexed, the brands would introduce programs to train the operational managers on their departmental financials and the owner would pay. All stakeholders would benefit from this. So, what are you waiting for?
6. **There is a big advantage that allows all management companies to play the GOPPAR game to the same rules.** Things can and have gotten a little dicey with room revenue treatment from items like packages and net vs. gross room rates. With USALI rules being much sharper to define what is above GOP the wiggle room for the new deal, measurement just becomes much clearer.

If management companies and brands are to survive and prosper then the ability to deliver a superior profit result for their owners needs to be the new focus. The ones who adopt this the best will have a huge advantage. This, at the end of the day, means leadership. Is it time to step up?

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