Don’t Be Fooled by Covid Hotel Statistics

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Imagine a quick mathematical scenario. Business drops 50% due to the lockdown earlier this year then you see a recovery of 50% of this number once the pandemic is over. Occupancy is back to normal, right? Not true; it is actually still down 25% from where it was before the drop.

Here is a another one, this time for two businesses. One experiences a drop of 15%; the other a drop of 60%. Which one is healthier? The answer is that you don’t know because there is insufficient data to draw an accurate conclusion.

You can make the obvious reference that the 60% decrease indicates a far more severe disruption to the budget and cash flow. It could also be that the first business with its 15% reduction went from an occupancy of 15% to 0% — which in itself would suggest that the first entity was struggling long before Covid hit – while the second went from 100% to 40% and argue that some revenue is better than none.

Many are fooled by relative percentages that lack a firm and scaled reference point. Quite often those reporting on the numbers get lost in the mire of endless data streams to then provide conclusions that hide their vapid essentiality behind confident language.

In particular, the current pandemic has resulted in numerical data the likes of which we have never seen in our lifetime. For example, I was reading that a hotel brand (name intentionally withheld) had seen its month-over-month business increase by a third for April 2020 versus March 2020. Should we be excited by this? Does this mean the worst is over? Hardly.

Many years ago, when I worked as a brand manager at Procter & Gamble, I was excited about a market share increase for my product as reported by Nielsen. I was quickly chastised, though, by my general manager who reminded me that companies bank revenue and not shares.To put this in hotel speak, RevPAR is not revenue nor is percentage occupancy.

This pandemic has shaken the entire foundation of how we look at numbers and how we evaluate our business. Nowhere is this more apparent than the use of RevPAR figures. In the face of Covid-mandated hospitality protocols, what happens to these numbers when you are forced to put 25% of your rooms out of order to meet new social distancing guidelines and at the same time you have to increase your room rate by 25% to offset all the new cleaning costs?

As this metric is reliant upon ‘available rooms’, a decrease in the total inventory raises RevPAR and so does any ADR increase. But this still doesn’t accurately forecast profits because occupancy and operating profit are both excluded from the calculations. For all you know, a blooming RevPAR can actually indicate fewer rooms for sale and surging costs that not even an ADR bump can mitigate, both ultimately resulting in smaller total profits.

As an industry, we need to cast off the shackles of our 2019 standards of analysis which usually started with an in-depth look of trended RevPAR data, looking at the minutia of variances and using this as the basis for our decision making. While this metric works on a macro-level when comparing markets, countries or continents, it now fails to reveal anything about a brand’s health on a per-property basis.

If I were an owner, I would tell my GM as adamantly as possible, “I don’t care about RevPAR. I only look at gross, operating and net profits. Just make the hotel’s P&L better.”

All of us in this business are responsible for the development and deployment of operational plans that are designed to maximize revenues and protect asset values. Notice here that I did not say maximize RevPAR and percentages. To be successful in a world of stymied traveler confidence, we will need to create a balance that now includes a ‘safety’ cost factor. This may lead to fewer rooms in order or possibly an extended room turnaround time. Under these circumstances, RevPAR becomes irrelevant.

Hotels need to instead look at total revenue – that is, revenue per available guest or RevPAG. In effect, we need to think holistically about the sum of all of the additional opportunities to generate revenue rather than taking a myopic focus on the ADR. This means silos need to be scuttled. Food and beverage, such an integral part of any hotel stay, needs to be integrated as does ancillary income from spa, golf, fitness and other aspects of your guests' experiences.

While I'm bullish on having a strong return for the hotel industry, I'm also pessimistic for those who think that old world of pre-pandemic revenue management analysis will deliver appropriate solutions. Smart owners will be looking for new ideas and new ways of thinking, with a keen eye towards real financial figures and not fancy analyses.

Source: https://www.hotelmogel.com/dont-be-fooled-by-covid-hotel-statistics/