

HVS Perspectives on the All-Inclusive Product

June 1, 2015 / By Kristina M. D'Amico

It is true that the long-held perception of the all-inclusive resort was fraught with thoughts of average quality accommodations, long buffet lines, and mediocre food. However, the industry has recently trended to a far more upper-upscale and even luxury vacation experience offered by the all-inclusive segment, with prices remaining extremely reasonable for the luxury services and value guests receive. Within the last decade, many all-inclusive resorts were built or renovated to demanding American standards, filled with typical American comforts such as lightning fast wireless Internet, five-fixtured bathrooms, multiple themed restaurants, spas, and more luxurious bedding and furnishings. Owners and managers alike have benefited from this new product trend and its increasingly successful business model.

All-inclusive resorts provide lodging, food & beverage, and entertainment for a fixed price, also referred to as the "package revenue." The model generates revenue on a "per guest" basis, rather than on a per room basis which is typical of the traditional hotel model. In addition to package revenue, "non-package" revenue is generated from other add-on amenities such as spa services, dining upgrades (including fine wine, premium alcohol and private dining for example), wedding packages, retail lease income, wireless Internet, and long-distance telephone charges, among others. It is common that travelers pay for their entire "package" upon purchase of their vacation though they may not travel to that destination for several months.

From an owner/operator perspective, thanks to the current all-inclusive business model structure, there are key differences and even benefits when comparing an all-inclusive with a traditional hotel product:

- Additional guest spending (i.e. "non-package" revenue) is higher than in the traditional model because guests have actually pre-paid for their trip and feel "compelled" to spend some money while on vacation. In recent years, all-inclusive resorts have created more add-on purchase options at restaurants, bars, spas and other outlets because these resorts are attempting to build incremental sales while consumers are more and more willing to splurge outside the initial vacation package purchase.
- In an all-inclusive resort, the less time a guest spends in the resort, the higher the potential profit. Every meal a guest misses, or every drink the guest does not consume goes directly to the owner's bottom line.
- Many tour companies have been created to work with a specific all-inclusive resort to offer a variety of daily excursions that maximize the amount of time guests spend outside of the resort, also providing ownership with even more bottom line revenue.
- All-inclusive resorts generally have a higher fixed cost base because they must maintain a minimum level of services, for example keeping food and beverage outlets open and having nightly entertainment. However, this higher fixed cost base also provides greater operating leverage and profit potential after the break even occupancy has been reached.

The rising popularity of all-inclusive resorts is directly correlated to the value proposition for the guest. The resorts that offer truly customized or high-end products and services with personalized experiences are beneficial to both the owner as well as the customer. Aligning these "additional" add-on amenities with guest preferences and spending habits helps to maximize bottom line revenue.

For more in-depth insight about this topic, click here for *The Evolution of the All-Inclusive Resort*, a free complimentary white paper published in the April 30, 2015 [Skift.com](http://skift.com/2015/04/30/new-free-skift-report-the-evolution-of-the-all-inclusive-resort/). <http://skift.com/2015/04/30/new-free-skift-report-the-evolution-of-the-all-inclusive-resort/> For more information and insight about the ever-growing all-inclusive product, or for consulting advice regarding the financials and structure of an all-inclusive asset, contact Kristina D'Amico at [\[email protected\]](mailto:kristina.damico@hvs.com).

Summary

Today's rising popularity of all-inclusive resorts is directly correlated to the value proposition for the guest. The resorts that offer customized products and services with personalized experiences are beneficial to both the owner and the customer.

1 Comments

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