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MARKET REPORT

Managing Hotel Labor Costs Today

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Managing labor costs in a hotel operation is crucial to maintaining a profitable business while delivering the service level that is commensurate with the scale of hotel. Finding this balance has been especially difficult in a post-COVID-19 environment given inflationary challenges and labor supply shortages. This article describes some of the challenges surrounding labor management and explores innovative ways to manage these costs effectively.

Managing labor costs in a hotel operation is crucial to maintaining a profitable business while delivering the service level that is commensurate with the scale of hotel. Finding this balance has been especially difficult in a post-COVID-19 environment, when inflationary challenges coupled with labor supply shortages have put further pressures on hotel operations. Labor is one of the most significant expenses a hotel faces, accounting for 30–45% of total operating costs. Managing these costs takes creativity, innovation, organization, and diligence. Adjustments must be carefully considered because making too many staffing cuts can lower profitability and negatively affect the hotel's reputation and guest satisfaction. In the following article, we will describe some of the challenges surrounding labor management and explore innovative ways to manage these costs effectively.

Understanding Hotel Labor Costs

Unlike many other commercial real estate investments, hotel operating costs can vary substantially with occupancy rates, meaning that a certain portion of costs can be controlled with changes in occupancy. Occupancy levels can fluctuate by week, by season, or with economic changes. The higher a hotel's occupancy is, the more cost-management opportunities exist. During periods of lower demand, profitability is more difficult to maintain, and the expense that is most closely tied to a hotel's usage is labor.

Labor costs include wages paid to hourly employees, overtime costs, training expenses, payroll taxes, health insurance benefits, and bonuses. Once you have determined your fixed payroll and benefit costs, which typically comprise the management team and minimum non-management staffing levels, you need to identify your flexible labor costs. Successful management of this expense requires an understanding of daily usage patterns, labor dynamics, local laws, and technology.

The Right Number of Employees at the Right Time

Instead of maintaining a fixed number of employees, the most prudent hotel operators utilize a variety of tools to access

and retain talent. Flexible staffing models allow hotel operators to adjust their workforce needs based on real-time occupancy data and demand forecasts.

One of the best and easiest ways to enhance workforce flexibility is to cross-train staff within a variety of departments. For example, front desk staff can assist in the restaurant or valet operation during slower periods, while maintenance staff can help the housekeeping team when the hotel sells out. I remember nights working as a hotel night auditor/front desk agent and folding laundry for the housekeeping department. Cross-training not only provides managers access to a wider in-house talent pool but also provides staff with transferrable skills across a variety of departments, which can lead to greater job satisfaction and even promotions for employees.

Another way to scale workforce needs in response to occupancy forecasts is by utilizing part-time and on-call staff. With fluctuating demand, hiring staff members on a part-time or on-call basis provides flexibility, adaptability, and specialized skillsets while reducing overhead by limiting the number of full-time employees and their associated costs, such as benefits. It is important to carefully investigate the pricing for on-call staffing solutions, as many types come at a significant cost. Nonetheless, depending on a hotel's specific needs, utilizing on-call staff may still be the most beneficial solution.

One of the most exciting recent innovations in hotel operations has been the implementation of scheduling technology. Scheduling software can help managers predict staffing needs more accurately based on information such as historical data analysis and real-time data integration. Artificial intelligence tools are now modeling labor demand forecasts according to factors like weather patterns, local events, and even traffic patterns. Shift optimization is helping to automate scheduling based on an employee's skills and experience, ensuring that the most qualified person completes each task. And finally, employee availability tracking allows staff to input shift availability and preferences, incorporating the staff members' own inclinations and considering their other obligations.

This technology has a strong return on investment; in addition to the scheduling model, it provides management with real-time productivity data, such as work-hours per occupied room for housekeeping. This feature assists managers with training, disciplinary, and reward opportunities to maximize the efficiency of their team.



Adopting Today's Advanced Technology and Tools

Integrating technology and robotics into the hotel management process might seem like the antithesis of "hospitality."

However, it is essential to recognize that application of the right methods at the appropriate time can optimize outcomes. When executed with thought and care, technology integration can not only reduce costs, but it can also enhance guests' experience, saving them time and energy during some of the more cumbersome or frustrating aspects of a hotel stay.

Digital check-in and check-out processes, either through mobile apps or physical kiosks, can reduce the need for front desk staff, decrease wait times, and improve efficiency. Guests have the opportunity to communicate guestroom preferences, request additional services or supplies, and address other needs before even arriving at the hotel. This allows staff to focus on more meaningful, high-touch guest interactions.

It was not long ago that I regularly faced a line of guests patiently waiting to check in to the hotel where I worked, while I simultaneously fielded phone calls from prospective guests hoping to book a room for the night. Today, nearly all hotel bookings are done online. Enhancements in property management systems have automated the booking process and allowed guests to make reservations on the Internet. Gone (mostly) are the days of manual bookings, saving labor time and costs as well as enhancing the overall guest experience. Property management systems also maintain a plethora of data, including guest information, financial transactions, inventory tracking, and revenue management, which helps to reduce the overall administrative burden of the business.

Robotics is another potential innovative approach to managing labor costs; however, the upfront cost today is still quite high, making this an unrealistic option. Many anticipated advancements in technology and artificial intelligence will make the implementation of robots in the hotel space more affordable and practical in the near future.

Taking It Out-of-House—Streamlining Operations

Some components of labor-intensive hotel operations, such as laundry, valet parking, and/or landscaping services, can be far more cost effective if outsourced to a third party. This option is not necessarily always more cost effective, as much depends on the market and property type; however, it is an option that should be evaluated by hotel management. Careful consideration must also be given to the quality and reliability of the outsourced service, as disruptions or inconsistencies in quality can challenge the flow of existing operations.

Hiring a third-party consultant to conduct an operational audit is another way to gain insight into operational and, specifically, labor inefficiencies that are negatively affecting the hotel's profitability. By reviewing operational processes on a regular basis, operators can work to eliminate redundancy, assess workflow patterns, and manage staffing levels more precisely.

Similar assessments can be made in the maintenance, food and beverage, accounting, and marketing departments, ensuring that teams are working to the best of their abilities, with the right resources at hand and through processes that maximize outputs.

Keeping the Team Happy

One of the most overlooked and misunderstood aspects of labor management costs is employee satisfaction and

retention. Numerous studies have shown that the cost to hire, onboard, and train new staff far outweighs the cost of retaining and rewarding existing team members. Recruiting and training is not only expensive, but it also takes time, which puts a strain on existing team members, the hotel's operations, and the overall guest experience.

There are several new and innovative ways hoteliers are responding to challenges in hiring and employee retention. From a recruitment perspective, management companies are offering flexible schedules, daily pay, free meals, subsidized housing and/or public transportation, and robust healthcare benefits. Other opportunities for employee engagement and satisfaction include family-friendly policies, such as childcare support and parental leave; team retreats; wellness programs; and mental health days. Providing career development opportunities through mentorship programs, training, or educational opportunities can be a significant incentive.

There are also many low-cost or free ways to create a sense of community and belonging at work, including recognition programs, themed workdays, social events, and cultural celebrations. Creating fun environment where employees look forward to coming to work is sometimes as important as other incentives. Furthermore, going beyond the typical hiring methods by developing partnerships with local colleges and universities or leaning on international visa opportunities can allow hoteliers to establish their property as a dynamic and exciting place to work, while prioritizing the profitability of the asset.

Persistent Challenges

There are certain assets and markets where labor cost management will remain difficult despite the implementation of the aforementioned solutions. Chronic labor shortages, collective bargaining agreements, regulatory laws, and high-wage markets are only a few of the challenges hoteliers may face that are harder to overcome via internal changes. Externalities such as economic downturns, which can affect hotel revenues, can also make it more difficult to maintain leaner costs while still providing competitive employee compensation packages. The complexity of hotel operations cannot be overstated; however, for nearly all hotels, the labor department presents the greatest area of opportunity for efficiency.

Conclusion

Prioritizing employee satisfaction and retention, incorporating technology and robotics, enhancing workflow processes and systems, and implementing flexible staffing solutions are some meaningful measures to creatively manage a hotel's labor costs. This holistic approach to labor-cost management, when implemented correctly and thoughtfully, ensures the viability of the operation from an investment perspective while enhancing the guest experience.

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