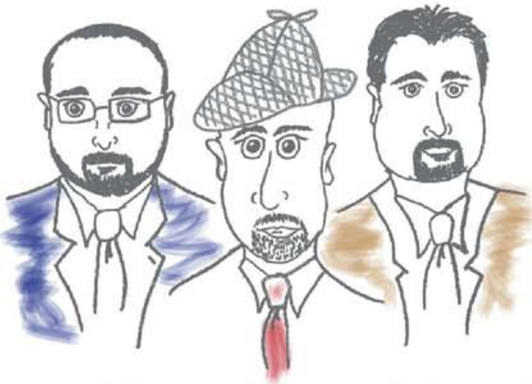

TRUTH TRACKERS

Editor's note: Welcome to our first installment of Truth Trackers, where *Hotel Business*, in partnership with CHMWarnick, sets out to debunk some common myths within our industry. Our chief investigators Richard Warnick, managing director/co-chairman, Chad Crandell, managing director/CEO, and Ken Wilson, managing director/co-chairman, are on the case to field each myth and shed some light on what is false and what is fact. We have quite a few myths to bust, but would also like to hear from you. If you have a "truth" that you want us to track, our three investigators and their team of hotel experts are on it. You can email me at christinat@hotelbusiness.com.

Myth

Year-over-year revenue growth is a valuable metric for evaluating whether or not my hotel is being managed effectively.

Truth

Wow, did we ever start with a doozy. Well here goes.

To track the truth in this statement, the obvious question is: How does your performance compare to similar hotels? Meaning, "growth" must be discussed within the context of the base performance from which it is occurring. Revenue may increase 200%, but if a hotel is operating 300% below operating potential, 200% is not very impressive. Neither is that the total answer... You are all intelligent readers and we are the Truth Trackers after all, so let's dig a bit deeper.

We'll assume the hotel in question is performing on par with its competition using revenue or RevPAR as the key performance indicator. In fact, let's assume this hotel is even out-performing its set in revenue growth. Good job, right? It depends. "Effective management" implies (a) the hotel is achieving desired revenue hurdles; and (b) revenue is flowing to the bottom line in the form of profit. An example: A hotel is growing its revenue at 4%, still well above the historical long-run average and comparing favorably to its competitive set. But, operating expenses are increasing at a rate of 5%. Even in light of seemingly decent revenue growth, there is a negative net result on profitability. Now, some expenses may be less easily flexed, and may not signal negligence on the part of the operator—such as onerous labor contract or rising costs of customer acquisition that plagues the industry as a whole. But, effective management comes from creative and strategic solutions. In fact, some strategies might even result in lower revenue growth, but increased profits. That's fodder for our next truth. So, in conclusion, revenue is like beauty, it is only skin deep. Profit growth is the best metric for evaluating how effectively your management team is achieving the results that really matter to hotel owners—the bottom line.

Until next time, Truth Trackers signing off.

Profit growth is the **best metric** for evaluating how **effectively** your team is achieving **results** that **really matter** to the owner—the bottom line.

#TruthTrackers