



OWNER EQUITY BY CHAD CRANDELL

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Diminishing returns: The growing impact of group commissions on profits (Part II)

(The views and opinions expressed in this blog are strictly those of the author.)

In Part I of this series yesterday, I outlined the issue of increasing group commissions, summarized findings from a related study published by Kalibri Labs, and shared growing concern for the impact of group commissions on owner profitability. While the industry is optimistic that major brands will continue to wield their scale and influence to lower group intermediary costs, as many have done with traditional OTAs, the impact on short-term profitability is significant and should be addressed in any and all ways possible.

So, this begs the question...

What should owners do today?

It is important that owners consider all factors – from the intermediary booking process to the incremental costs (direct and indirect) – as part of the hotel strategy, and hold operators to task on analyzing and developing key initiatives around:

- Sales team organization, deployment and incentive structure (both property and regional teams);
- Strategically evaluating sales and marketing departmental expense structure, to ensure resources are aligned with goals and in light of industrywide changes in how the customer is booking;

- Ensuring your operator is effectively using all available tools (e.g. Passkey for upselling, upgraded RFPs, hotel-specific promotional calendars, etc.);
- Group pricing strategies today and in future;
- Optimal mix of business and channel contribution;
- Intermediary contribution/cost and targeted sales efforts;
- Opportunities to differentiate group offerings in a market that has increasingly become price-driven through the RFP process;
- Revenue management (of guestrooms and meeting space) and net group revenue analyses;
- Negotiating strategies and value-add (what can your hotel bring to a group that no other hotel can ... think access and exclusivity);
- Ancillary revenue and key decisions surrounding outsourcing (could it be time to take AV back in house?);
- Looking for opportunities to lower related expenses, e.g. examining policies surrounding group use of credit cards (offering incentives to pay cash could be more profitable and looking at loyalty-related costs, etc.);
- Examining if there is a more profitable use of meeting space or whether it can be reconfigured to generate higher occupancy and profit? and,
- Considering what the future of group business will look like and what should owners be thinking about today to address future needs (online booking processes, smaller groups, virtual meetings, technology, flexible space, etc.).

As the industry continues to contend with disruptive forces, the owners (and the advisors) that are able to anticipate challenges early, and remain nimble, creative and strategic in their approach, will be most successful (and profitable!) in today's operating environment.