

EFFECTIVELY MANAGING HOTEL OPERATIONS - ACCURATELY FORECASTING

HOTEL/MOTEL LABOR NEEDS

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Labor costs in the lodging industry are currently averaging 33.3% of total revenues in the United States (Trends, 1989). This continues to be the largest category of expenses a hotel/motel incurs. As a result, labor costs impact profitability more than any other factor. Income before fixed charges (depreciation, rent, interest, amortization and income taxes) stands at 19.9% (Trends, 1989). In addition, it is safe to assume that wages and salaries will continue to rise, as will the number and cost of benefits. Nevertheless, management is expected to increase or at least maintain income before fixed charges.

So, how can management achieve this goal? In the past year and a half, several hotels/motels in California were studied. All facets of each hotel/motel's operations were examined. The properties ranged from large convention properties to small limited service suite hotels and old established resorts to new motel franchises. In each case, the existing organization's structure, standard operating procedures, levels of service, volume of business and labor costs were analyzed. These were the findings:

1. Poorly designed organizations had high labor costs.
2. Of all the properties studied, none had clearly defined labor (productivity) standards. While many had limited standards for

their wait staff and room cleaners, most did not have any for the other departments in their operations, such as the kitchen, front office and maintenance departments.

3. Very few of the establishments studied formally forecasted volume of business.

4. Of those properties which did forecasting, few incorporated it's findings when planning schedules other than in their restaurant and housekeeping departments.

Thus, once again, how can hotels/motels reduce their labor costs, both in absolute terms and as a percentage of revenues? The answer is - by effectively managing labor. This can be achieved in three easy steps:

First, and most important, develop labor (productivity) standards for each position in the organization. Establish these standards on the basis of business type, clientele and operating systems/procedures. Productivity standards need to be developed for salaried and hourly employees, as well as, fixed and variable ones. These standards must be well defined and measurable. Once established, both supervisors and the employees must be informed about them.

Setting standards for variable (hourly) employees is relatively easy. It requires properly measuring productivity through time and

motion studies. An example of a possible productivity standard for a restaurant is one waiter per twenty covers. In a hotel, the productivity standard set for the rooms' area might be one maid per ten rooms. Creating standards for semi variable employees (hourly) is more difficult. These employees include desk clerks, hostesses and maintenance personnel. In the case of these employees, it is recommended each department determine the minimum number it requires to be operational during slow periods, in other words, when conducting little or no business. Only after this minimum level is reached, should productivity standards be set. For example, to service up to fifty occupied rooms at least one desk clerk must be employed. Even if occupancy drops below this level, one desk clerk will be required. The number of additional desk clerks scheduled will be in direct proportion to occupancy levels only after occupancy reaches fifty rooms. In the case of desk clerks, this might be one clerk for every 60 rooms above the original 50. Similar concerns apply to fixed (salaried or hourly) employees. In fact, they should be considered when defining the minimum level of employees required to remain operational.

Second, hotel/motels can reduce labor costs by establishing a system which effectively forecasts business. With the exception of the food and beverage department, the labor costs for the departments in a lodging establishment are contingent upon the occupancy forecasts generated by either the sales and marketing or front office departments. This forecast has two components: 1) actual reservations and 2) projected reservations. To be effective

this forecast must be accurate and distributed to department managers can implementation when planning their schedules.

Forecasting is more complicated for the food and beverage department. There are three distinct areas in food and beverage: 1) banquets, 2) restaurants and 3) room service. Each of these areas is unique. From a forecasting perspective, banquets are the easiest. Since banquets are contracted, they can be forecasted accurately.

In the restaurant, on the other hand, the volume of business can not be predicted with the same ease. It can result from two sources, hotel guests and community members. Therefore, the challenge is to anticipate the number of community members and hotel guests who will the restaurant. The number of community members patronizing the restaurant can be calculated by recording the actual number of community members dining in the restaurant at each meal. Estimate this number by subtracting the number of house guests from the total number of restaurant patrons. Since most hotel guests charge their restaurant expenses to their rooms, records are available which identify the number of hotel guests who dine in the hotel's restaurant each meal every day. The average of the last four Mondays provides a forecast, thus, for the following Monday. With hotel guests, it is also necessary to study what percentage eat each of their meals, breakfast, lunch and/or dinner in the restaurant. To obtain this percentage for each meal, examine a two week test period. Count the number of

hotel guests who dined in the restaurant at each meal. Divide this figure by the occupancy count. This is the percentage of hotel guests who dined in the restaurant for each meal. This figure should be calculated for each outlet. By multiplying this percentage with the hotel occupancy forecast, each manager can forecast the business expected to be generated from hotel guests. The total of the expected covers from community members and hotel guests yields the correct forecast.

Room service, unlike the restaurants, serves hotel guests exclusively. Therefore, the percentage of house guests who order room service each meal can be calculated as follows. Record the number of hotel guests who order room service over a two week period. Next divide this figure by the occupancy count to obtain the average number of guests ordering room service each meal. On the basis of this average, managers can create their weekly employee schedule.

There are exceptions to this procedure. If a hotel does a substantial amount of group/convention business, the group/convention profile and banquet schedule should be considered. For example, assume a specific group is occupying 50% of the hotel and has contracted for all of their meals through banquets. In this situation, room service and the other food service outlets should adjust their forecasted covers proportionately.

The third and last step to manage labor costs is through scheduling. By using the established standards and forecasts each department manager can schedule accurately. Thus, scheduling no longer is a subjective exercise, rather, it is an objective one.

Finally, recognize this system is only a tool. It can help managers to reduce their labor costs. Complete implementation and adherence is essential for this to happen. Moreover, schedules and forecasts need to be fluid. Adjustments should be made daily and as frequently as each shift if this system is to be truly effective. When this occurs, managers are empowered with the information needed to schedule properly. Only under these conditions can they be held accountable for their labor costs.