Chapter 13

The Productivity Challenge Facing the Global Hospitality Industry

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ABSTRACT

This chapter introduces the global productivity challenge facing the hospitality industry. Global competition in the hospitality industry has led to increasing pressure on profit levels. To leverage profits hotels increasingly are forced to evaluate their operational performance. Specifically, the global productivity challenge entails that hotel managers to a greater extent must encompass a cost minimization perspective. With the integration of productivity-enhancing software systems in hospitality organizations hotels are becoming increasingly knowledge intensive. This chapter discusses measurement issues, productivity analysis and relevant research findings from empirical research. The empirical research on hotel productivity shows that there are many factors to keep in mind for managers that wish to improve productivity in their organizations. Hopefully this chapter will contribute to clarifying the meaning of concepts and broadened the perspective of how productivity are related to all parts of the hospitality enterprise.

INTRODUCTION

Around a decade ago, a Scandinavian GM commented that “running hotels is no rocket science, basically it is a business of cleaning rooms.” His self-effacing comment poorly reflects the complexity of running hotels in today’s business environment. Globalization and tougher competition have forced hotels to become ever more streamlined and efficient in their operations. This has led to an increased attention to measurement and improvement of operational efficiency and productivity. An increasing share of hotels has adopted tools that previously were more associated with industrial processes in terms of optimizing the use of its resources. The objective of this chapter is to discuss the importance
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of operational productivity in today’s competitive environment, which is reflected in the increased usage of measurements like total revenue management (TRM) and gross operating profits per available room (GOPPAR) (Kimes, 2011). Specifically, the objectives of this chapter are threefold. First, to provide arguments that productivity improvements in the hospitality companies are increasingly important for overall performance. Second, to clarify the meaning and measurement of productivity using standard microeconomic theory. Third, to identify sources of productivity differences among hotels based on the findings from a growing literature on productivity in hospitality research. While studies that directly estimate productivity performance in hospitality firms obviously provide relevant evidence, there are also other studies on e.g. human resource (H.R.) issues that provide relevant perspectives on sources of productivity differences.

This chapter starts by putting the spotlight on the global productivity challenge facing hotels. Next, follows a conceptual discussion of productivity measurement used in the hospitality industry. The standard theoretical framework from microeconomics is presented, which provides a conceptual framework that allows us to identify sources of productivity improvements. The discussion of productivity measurements and theory is used as a departing point to look at sources of productivity differences among hotels. Here productivity issues that are relevant for the hospitality industry discussed, relevant productivity measures and methods to estimate hotel productivity are reviewed; empirical findings on productivity in the hospitality industry are presented; and, finally, some managerial implications on optimizing operational performance in hotels are discussed.

THE GLOBAL PRODUCTIVITY CHALLENGE

The main benchmarking performance measure in the hospitality industry is revenue per available room (REVPAR). The overall trend in inflation-adjusted REVPAR following the post financial-crisis period of 2008 have either been flat or negative depending on which region one looks at. For example, REVPAR in Europe and Asia has increased less than the general inflation level based on global hospitality data from Smith Travel Report (STR). This could imply that prices of inputs (e.g., labour, food and energy) have been increasing more than room revenue and, as a result, have put pressure on hotels’ profit margins.

To understand why growth in earnings have been flat we need to look at the effects of globalization. Importantly, the Internet has completely changed the marketing and distribution channels for hotel rooms during the last couple of decades (Buhalis & Law, 2008). On the one hand, the Internet has led to a far wider distribution making it easy for travelers to book rooms worldwide, but, on the other hand, the Internet has also changed the profit distribution in hospitality companies’ disfavor. Specifically, the explosion of Internet distribution channels such as Expedia, TripAdvisor and Hotels.com have shifted market power from hotels to online distributors and customers (Lee, Denizci Guillet, & Law, 2013). For example, Expedia ask hotels commission of up 25% of sold room rates. This not only means that revenue growth has stagnated but the share of revenue going to hotel companies is also decreasing putting hotels’ earnings under pressure. Thus, the market power issue in hospitality has widened from the typical worry about, say, tour operators negotiating power in relation to contracting hotel capacity (Tveteraas, Asche, & Lien, 2014), to a much wider impact of online distribution channels. Furthermore, the increased transparency of hotel pricing through the Internet has made room pricing more efficient due to consumers’ exploitation of arbitrage opportunities.

An implication of these changes in the hotel marketplace is that fewer smart pricing decisions remain. Thus, while yesterday’s challenge in the hotel industry to a larger degree was linked to revenue