CoStar

Will Experiences End Traditional Hotel Revenue Models?

Hoteliers Must Reexamine Traditional Metrics and Key Performance Indicators

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Increased demand for experiential hotel services, hybrid lodging concepts and other less conventional offerings transformed the hospitality industry in recent years and will likely remain a key trend as we're rebounding from COVID-19.

Eco-glamping, well-being retreats with a sustainability focus, serviced apartments, safe co-working space for bleisure travelers or co-living facilities in natural settings are just a few examples of accommodation offerings that may gain popularity in the future.

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We're seeing more and more hotels and resorts investing in the experiential side of operations or venturing into hybrid projects. They are exploring how to deliver new services with a difference that guests are willing to buy — while justifying the investment and targeting optimal returns. It is safe to say that a significant part of hotel revenue is already generated by new offerings that go beyond hotel rooms and tend to blur the traditional categorization of departmental revenue flows.

This inevitably begs the question of whether many of the traditional revenue models and industry key performance indicators we have typically used to measure the financial performance of hotels are becoming redundant. If so, what revenue-management approach and metrics will become more relevant for industry stakeholders to judge hotel performance in the future?

First of all, some key traditional key performance indicators are by no means redundant. Total revenue per available room (TrevPAR) is a relatively comprehensive indicator, which gives a wider view of overall revenue flows that also include food and beverage, meeting space or spa services. Other well-known foundational hotel metrics, including revenue per available room (RevPAR), revenue per occupied room (RevPOR) and the average daily rate (ADR), are still relevant to assess room revenue generation.

RevPAR and ADR have long been golden standards for operators. Over 77% of respondents in a pre-COVID-19 hotel survey selected RevPAR as the most preferred way to measure revenue-management performance. Traditional metrics remained important in the early stages of the pandemic in June 2020, with only 44% of revenue managers rethinking their key performance indicators at the time. It is also telling that RevPAR and ADR were still the top choices for revenue optimization professionals as of March 2022.

While traditional KPIs may be still fit for purpose if we are operating a hotel with long-established revenue streams tied to a rigid pricing model, it is a different picture when we have out-of-the-ordinary sources of revenue. With hotels continuing to pivot, adding unconventional revenue drivers, expanding into hybrid arrangements and focusing more on experiences and sustainability, we may need to look beyond historically used revenue models and metrics to interpret hotel performance.

One increasingly valuable indicator operators can consider is revenue per available square meter (RevPAM) and gross operating profit per available square meter (GOPPAM), which takes into account the entire area of the hotel or resort to assess revenue and profit generation capabilities. Calculated as total revenue or profit divided by total available area in square meters, this metric allows properties with sufficient space outside the rooms to launch new services in underutilized or underused spots, ultimately creating new sources of revenue and boosting efficiency.

Another highly useful metric that is also growing in significance is gross operating profit per available room (GOPPAR), which captures the totality of the financial performance and provides invaluable support in gaining an instantaneous profitability perspective of the business. GOPPAR often proves to be an indispensable tool in establishing a more holistic approach in revenue management and can optimally complement other KPIs already in use.

Hotel industry professionals have long predicted that GOPPAR will be the most important benchmark in the future, according to a survey comparing revenue management key performance indicators. Many respondents believed that gross operating profit or a similar profit-centric measure will replace RevPAR as the key metric of the future and hotel performance will be measured per unit of available area, rather than per available room.

Pointing to a possible explanation for why this transition hasn't materialized, respondents highlighted that benchmarking was still carried out in part on RevPAR, preventing market players from using another key performance indicator until it can be benchmarked against competition. At a recent industry event in 2021, participants heard that identifying relevant key performance indicators is not about finding one replacement for RevPAR, but using "a suite of KPIs" to measure performance and focus on the bottom line at the same time.

Assessing financial performance and tracking the impact of revenue-management decisions has never been more important as hotels, resorts and other properties are increasingly diversifying operations to come up with more experiential offerings or create hybrid setups. Revisiting traditional KPIs and adopting new ones can certainly help bring about new revenue-management approaches and support stakeholders in correctly reading the performance of the hotel product in the 21st century.

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