

## Hotel Online Special Report

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### Are You Laying-off the Right Employees?

*by Jose Acosta*  
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The current weak economic climate has hotel managers spinning as they try to find ways to increase revenues and reduce costs. However, many managers continue to make the same mistake of drastic across-the-board payroll cuts, which reduce costs in the short term; but, have negative long-term effects that result from a correlating reduction in customer service.

Labor represents the single largest expense of any hotel – typically comprising 40 to 45 percent of operating expenses – and warrants significant focus and analysis. However, a critical balance exists between meeting customer expectations and containing payroll costs. Reducing labor costs is not as simple as simply reducing staff counts by a given percentage in order to meet financial expectations. The consequences of using this method will result in loss of market share and repeat guest business as well as high employee turnover. Furthermore, cutting staff in the wrong departments can end up costing more down the road. For example, cutting an Accounts Receivable clerk might seem an easy attrition, but this could soon result in thousands of dollars lost in charge backs and guest billings.

It is only through the analysis of labor costs on a daily basis that hotel managers are able to analyze the specific needs and costs required to staff the departments optimally. Surprisingly though, there are few tools available to simplify this process.

Most hotel managers project labor expenses by department based on the projected revenues and the historical labor cost indicators, such as cost per occupied room, labor cost per hour, cost per cover, percentage of revenue, etc. Moreover, this is

done only on a monthly basis at the departmental level, which is actually ineffective because in-depth analysis of fixed and variable costs is required.

Hotel managers also typically use spreadsheets for operating budgets, productivity monitoring, and staffing/scheduling to gather the data that helps them manage labor expenses. However, spreadsheet programs are simply not capable of providing information in a format that is conducive to in-depth analysis by position on a daily, weekly and monthly basis, which is what is required for optimal staffing at a minimal cost.

Although most of the labor information resides in time and attendance systems, there is no capability to extract these data to any useful format for further analysis. Even though early time clock systems have progressed from punch cards to more expensive and sophisticated electronic systems, these systems cannot compare the captured labor hours and cost data against associated revenues and statistics.

## **Conclusion**

The commonly used spreadsheets are archaic, time-consuming and ineffective. These spreadsheet reports do not provide feedback which is timely enough to be useful to departments with variable labor indicators. Also, they cannot be used for future forecasting and budgeting at the required level of detail. The sooner a department manager becomes aware of a deviation in productivity, the easier it is to make a correction. Therefore, not having the correct tools to manage the single largest expense in any hotel will create not only a decrease in service but also an under-utilized labor force.

Finally, hotel managers need to reduce labor costs through strategic reductions that won't sacrifice customer service, safety and profitability. Drastic across-the-board labor reductions may appear to result in cost savings, but a detailed labor analysis is critical to ensure that the reductions won't cost you more in the long run.

*Jose Acosta is a principal in priZem international inc., the hospitality industry's solution group which provides the exact type of database software that he outlines above as critical to the success of any hotel during these difficult times. Go online at <http://www.prizem.com/> to review some sample reports of our Labor Intelligence software or contact us at 212-327-2400 for more information.*

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Also See: [Inexpensive Software Provides Hoteliers with Decisive Method of Managing Labor Costs in a Challenging Economy](#) / Dec 2002

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