



Drive Profit Through Your Parking Lot with Automated Technology

By Joshua Miller, Principal, Niche Advisors

Hoteliers spend tremendous time and energy looking for strategic ways to utilize technology to improve their operations and drive financial performance. What many fail to look at is that the hotel itself usually sits in the middle of a large parking facility. This facility often takes up as much real estate as the hotel itself, but because parking is outside of the core focus of the industry, parking technology is rarely part of any strategic capital or IT plan. At Niche Advisors, when we travel to visit our clients we typically find that they use no parking technology at all or if so, it is the most poorly maintained, unsophisticated and outdated product on site. This article will explore how some of the latest advancements in the parking industry can help hotels capitalize on unrealized profit.

Most hotels which charge for parking either charge on the honor system, or have an outdated or unsophisticated parking access and revenue control system (PARCS). Honor system hotels simply rely on their guests to tell the truth when asked at check in if they are parking a car. If the guest says yes, a code is added to the their folio and the guest is automatically charged each night. Because there are no gates or control of the lot, the guest does not have to be forthcoming. We find that most hotels using the honor system fail to capture revenue from 40-70% of the vehicles parked in their lots. In addition, without gates, there is no effective way to collect parking revenue from day visitors or catering clients. Honor system hotels who invest in PARCS will see a very quick return on their investment.

Of those properties which do utilize PARCS systems, most operate them in what we refer to as “the traditional model.” In the traditional model, tickets are issued on entry, and customers pay at a staffed cashier booth at the exit. Often, the cashiers are employed by third party parking management companies. This means that each revenue transaction has associated labor costs and management fees. In the traditional model, except in extremely high volume or high rate operations, most properties run at a 20-40% profit margin. More importantly, by giving cashiers the responsibility to decide what to collect from guests, the hotel opens itself up to significant risk of loss due to theft and error. This revenue “slippage” is rarely less than 10% and typically 20-30% or more.

The concept of parking automation, or utilizing technology to automate the cashiering process, is quickly moving into the North American parking industry from Europe and Asia. Most travelers are now familiar with the concept of automation because many airports have adopted an automated approach. Essentially, customers pay at a “Pay On Foot” device rather than paying a cashier in a booth. The “Pay On Foot” device is strategically located so that parkers pass it on the way back to their car. They insert their ticket, a display screen advises them how much they owe, they pay the fee with by inserting cash or a credit card, and they receive their “paid” ticket back to use at the exit. They can also request a receipt. Those customers who do not use the “Pay On Foot” can complete the exact same transaction in the exit lane if they pay by credit or debit card.

Hotels are complicated in that there are many types of parkers other than people paying the hourly rate. Hotel employees and any monthly customers are generally issued access cards to gain entry into the facility. These cards are fully reportable for management purposes (to review the arrival and departure

times of their employees). Hotel guests exchange their ticket at check in for a guest parking pass. This electronic pass allows them in and out access and can be printed on a ticket or in the right circumstances, on the guest's room key. Event patrons which have hosted or negotiated parking rates are issued special validation coupons to reduce or eliminate the parking fee. These tickets are also fully reportable so that accurate counts of activity by group can be tracked. For large events, the hotel may sell exit vouchers as customers arrive to improve traffic flow when all of the customers leave simultaneously. Restaurant and other outlets, as well as the sales and management staff validate parking either with an electronic validator or with validation coupons. Essentially, every potential parking customer is offered a way out of the lot which does not require a personal interaction.

As an example of the business case for automation, consider a typical hotel which charges for parking: 350 rooms, 10,000 square feet of meeting space, 70% occupancy, 30% of guests parking a car, and a \$15 parking rate. They report \$375,000 in annual parking revenue. The hotel outsources its parking operation to a third party under a management contract for \$3,500 per month plus all expenses. The operator staffs a full time on site manager and cashiers working in the facility's exit booth 24 hours per day. They report \$175,000 in total payroll and another \$20,000 in operating expenses outside of the management fee. This means that total expenses for the operation are \$237,000, leaving a profit of \$138,000 or 37%.

The property considers the concept of parking automation. If they head down this road, they will eliminate all cashier labor. They will no longer need a full time manager and decide to replace him with a full time supervisor. Given that there is only one supervisor on the payroll, it no longer makes sense to utilize a parking operator. The supervisor can be an internal employee reporting directly to the Front Office Manager, and other internal departments can take on a few extra duties to make up for any excess workload. In addition to labor savings, error and theft by their front office and cashiering teams have been causing 10% revenue slippage which will be captured by the new system. With all of these considerations, the automated technology has the potential to improve their bottom line by:

- Eliminating cashier payroll: Savings of \$115,000
- Reducing the manager's salary to a supervisor's wages: Savings of \$20,000
- Elimination of management fee: Savings of \$42,000
- 10% Improvement in revenue collection: Increase of \$41,500
- Total bottom line improvement: \$218,500

The resulting performance at the hotel is now \$416,500 in revenue, \$60,000 in expenses for a profit of \$356,500 or 86%. The automation has more than doubled the previous bottom line, and the technology is paid off within the first year of operation. In cases where hotels do not use a parking operator, there are less expense savings, but revenue control improvements will be much larger. For large or complicated operations, it may make sense to continue using a parking operator and even to occasionally staff some of the automated technology. The goal is to remove decision making capabilities from the cashiering staff and to implement as many control practices as possible. These scenarios always have positive results and very rarely have a payback period of longer than 18 months.

It is crucial to understand that while this type of scenario is definitely achievable, it takes resources and dedication on the hotel's part to buy the right technology and to implement it into daily operations in an effective and sustaining manner. This means:

- Ensuring that you get “apples to apples bids.” Different technology brands offer solutions to the same challenges in many different ways. A cheap solution may be inexpensive on the front end, but expensive later on when the system breaks down or fails to control revenue how you planned. It is crucial to understand the technology each vendor offers to see that the lowest bid may not really be the lowest in the long run. Considering the ROI that will be achieved over the life of the system, spend the extra money up front to get the right equipment for the job.
- Develop effective operating procedures. Vendors will tell you which buttons to push, but they do not understand your business. You need to determine how to use the system as a tool in your operation to maximize results. Remember, even the best technology is only as effective as your use of it.
- Maintain it! Parking technology maintenance should fall under the responsibilities of an IT or engineering team. Too often, this is left to operations managers who have too much on their plate to keep up with preventive maintenance duties. This can reduce the lifespan of the technology by 50% or more.
- Continue to learn. Once you are up and understand the basics of your system, spend money on continued training to learn its more advanced features. You will be surprised by what is available. Teach this information to more than just one person so that turnover doesn't put you back at square one.

Purchasing and implementing automated parking technology into your operation can significantly improve operating and financial performance. Consider it in your overall capital and IT plan as a strategy for 2009 and 2010.

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