

Parking: A Neglected Profit Center - By Joshua Miller

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Hotel owners and managers spend tremendous time and energy looking for strategic ways to make the most of their hotel asset. What they often fail to look at is that the hotel itself usually sits in the middle of or adjacent to a large parking facility.

This facility often takes up as much real estate if not more than the hotel itself, but because parking is outside of the core focus of the industry, parking facilities are rarely strategically managed. As a result, the extremely profitable dollars of parking revenue are often left on the table.

Revenue Control

Most hotels do not view parking as a profit center, but rather as a service amenity. As a result, hotel parking management is usually focused on providing quality service. As long as customers are arriving and departing from the hotel without complaints, most managers are happy, particularly if some revenue is generated along the way. This thought process often results in parking department managers being promoted from the position of bellman, valet, security officer or front desk agent. If these employees can ensure consistent service, then they are viewed as competent for the job. Unfortunately, they rarely have any business or financial training and are then put in charge of what can sometimes be a multi-million dollar operation.

In addition to the lack of training and development of most parking managers, the hotel parking accounting process is inherently complicated as there are many different hands in the financial 'pot.' Hotel guest parking charges are generated by front desk agents adding a code in the front desk management system during the check in process, but agents often forget to do so. Event charges are often posted to group master bill accounts by the hotel accounting team, but the amount posted is based on data generated by the parking staff. This leads to mistakes and miscommunication, and if not done in a timely manner, a meeting planner can settle their account prior to the charges being posted. Transient or hourly revenue is collected by parking cashiers, and is open to theft or error on their part. When charged, employee parking revenue is usually directly withdrawn from employee paychecks by the payroll department, but these withdrawals are rarely reconciled with any accounting of who is actually parking a vehicle at the property.

Lack or Neglect of Technology

Many smaller hotels or hotels that are first experimenting with charging for parking do so based on the honor system. Only hotel guests are charged, and only those that admit to having a car ever see the fee. The honor system does not work in a hotel environment and we often see as much as 50% or more customers with a vehicle parking for free. Controlling access to the facility with parking technology prevents people from leaving the property without paying.

Those hotels that do use technology usually purchase a PARCS (parking access and revenue control system) system during initial development or when major renovations or ownership changes occur. These systems are then left in the hands of various department managers who turnover every year or so. Unlike property management systems or physical plant equipment, they are not typically maintained by an IT or engineering department and eventually begin to fail, until they reach the point when those revenue control features they might have offered do not work anymore. In addition, system training is not passed on during management turnover and new managers do not know how to use the system's features. Since tradition in the hospitality industry has called for cashiered parking systems, the veteran parking cashiers typically know more about the system than management. Because of this, more senior cashiers end up training new staff members and any cash integrity issues or processing errors are passed down to the new team.

In addition to the lack of maintenance and proper use of older systems, there have been significant advances in parking technology in the last 5 to 10 years. Many of these have been developed specifically for the hotel application. With appropriate training and procedural development, all of the control problems mentioned above can be addressed with new parking technology. Many hotels are automating their parking garages, meaning that customers pay at 'pay on foot' devices as seen at many airports rather than to a parking cashier. This not only eliminates substantial payroll costs, but also completely removes the possibility for error and theft from cashier staff or guests. Although an automated system requires considerable oversight, the return on investment is significant, with the system often paying for itself within the first year of operation. Whether automated or not, new parking technology offers solutions to many of the revenue control problems facing hotel parking facilities.

Charging For Parking

Another way that hotels fail to maximize their parking assets is by failing to charge in a market that supports doing so. Many isolated resorts, limited service, and suburban properties do not charge parking fees for fear of driving their customers away. They claim that customers faced with a decision between two similar hotels will chose the one without a parking fee. We disagree. While no one wants to pay additional charges if they don't have to, we see that most guests make their decisions based on brand loyalty, location and/or amenities. Unless the parking rate is going to be exorbitant, this is not typically part of the decision making process. We recognize that customers often complain about paying for parking, but they also complain about telephone call rates, high speed internet charges, mini-bar fees, room service prices, etc.

The decision to charge should be based on a competitive market survey. By checking the policies and rates of its competitors, the hotel will be able to understand what the market can support. It is important when conducting this survey, that the hotel review its competitive parking market rather than its competitive hotel room market. For example, a downtown Holiday Inn may normally consider its competition as the other local limited service properties. There may be a La Quinta that it competes for room business with that does not charge for parking. However, if the La Quinta is not in the same neighborhood and a Hyatt Regency next door is charging \$20 for parking, then we would include the Hyatt in the rate study. Many hotels miss the opportunity to charge for this reason. If people expect to pay for parking in the geographic neighborhood of the hotel, then its room competitors should not matter.

Once the hotel has decided to charge for parking, just like hotel rooms, parking inventories need to be strategically managed so that they generate the optimal revenue yield. Hotel revenue managers look at the value of different groups versus transient business, at how booking varying sizes of contracted corporate rooms affect the availability of transient business during peak and slow periods, what rates will guests pay at various periods of the booking window, etc. It is rare that a parking garage is managed with this much strategy, but the strategy has the same financial impact on parking revenue as it does for rooms. Failure to manage parking revenue in this fashion is often the most overlooked and easily solved source of parking revenue loss.

The next area of parking revenue management to consider is the use of discounting and complimentary parking as a tool for the sales and catering departments. Most hotels offer discounted parking to all events and many in house groups. This is often done automatically rather than strategically. Just as a hotel would not waive a meeting room rental fee or provide complimentary upgraded bar liquor without strategic analysis of the value of the group, parking should not be given away without consideration either. This is even more the case in parking because parking revenue is so much more profitable than these other ancillary areas. One method we recommend is to charge complimentary parking to internal expense accounts of sales managers just as they would 'pay' for room service amenities or other hotel items. We know that discounted parking can be an incentive to close a deal, but it should be a strategic decision rather than an automatic 'freebie.'

The last aspect of parking revenue management that often goes unaddressed is utilizing parking inventory to its maximum potential. Hotels that pay for overflow parking when they can fit more vehicles on site fail to maximize their inventory. This is also true of hotels that pay for overflow parking appropriately but do not track usage and confirm billing from their overflow garages. We often find hotels getting over billed because they are unaware of their actual usage. On the other end of the spectrum, hotels that fail to market excess inventory are not maximizing their inventory either. Identifying excess inventory is often the most important step, as hotels need to determine how much space they can sell that will not interfere with normal hotel business. Developing a strategic sales and marketing plan for parking space is often as effective as it is for rooms. Identifying potential clients, advertising in the right media, offering discounts where appropriate, and booking monthly contracts are all ways of selling excess hotel parking inventory.

Contract Management

Many hotels outsource their parking operations to parking services vendors because they feel they do not have either the resources or expertise to manage the operation themselves. A parking vendor can offer skilled revenue control, claims management, flexible staffing and professional service, so outsourcing is often an excellent decision.

However, the lack of expertise that directs the hotel towards outsourcing can sometimes lead them to negotiating unfavorable contract terms. Without knowing what is going on in an operation, it is possible to make deal terms that seem competitive but are later discovered to be not as great as originally planned. Consider the example of an internally managed operation about to be outsourced into a percentage rent agreement. A hotel might make a great deal with their new operator only to find out later that there was so much extra revenue on the table from the revenue control problems mentioned above, that they end up paying the operator much more than they had planned. Without expertise, parking operators will always have the negotiating advantage when making deal terms, especially in revenue sharing scenarios. Management agreements in which an operator makes some sort of management fee and passes the expenses on to the hotel are usually less risky if the hotel expects to make a big improvement. However, the set fee can also fail to offer proper incentive to the parking operator. In addition, market conditions can change such that the original terms no longer make sense. Changes such as increases in rate, or operational flow that requires more or less staffing can significantly affect the bottom lines of the hotel or the operator. These changes must be considered in advance and as they occur to determine if the deal structure still makes sense.

Contract compliance can also be a major issue for hotels. As with many contracts in a hotel environment, once the deal is executed and the hotel is satisfied with the operator, the contract goes in a file in the accounting or corporate office never to be looked at again until renewal. Hotels can be easily taken advantage of in these circumstances. Operators sometimes 'sneak' through costs that were not agreed upon, fail to follow service plans like secret shopping, fail to pay additional rent if certain thresholds are met, etc. A Controller or General Manager should review their parking agreement on at least an annual basis to ensure that the terms are still fair and that all parties are living by them.

Even though parking is considered an ancillary department that only generates a smaller portion of overall revenue, if effectively managed, it can be one of the most profitable minor operating departments in a hotel. The bottom line of a large hotel parking operation can sometimes contribute more EBIDTA than the hotel's restaurant. All it takes is the same strategic planning, analysis, and oversight that hotels put into the rest of their activities.

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