

Hotel Sector Review

Autumn 2022



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WELCOME TO THE HOTEL SECTOR REVIEW

Autumn 2022 sees the Irish hotel industry at a point unlike any other in its history. Recovery in H1 was ahead of projections but hotels now face an uncertain period ahead. As we approach Q4, traditionally a busy quarter, hotels are advised to keep business processes as agile, and market led, as possible.

This edition of the Hotel Sector Review examines three key priorities that hoteliers should focus on:

1. Revenue & Cost Optimisation.
2. Mitigating against Skills Shortages.
3. The Importance of Owning your Customer.

KEY PRIORITIES FOR THE HOTEL SECTOR

Revenue & Cost Optimisation

Against a backdrop of rising input costs and the need to maintain financial sustainability, three quarters of all Irish businesses are having to increase selling price¹. For hotels, rapidly rising energy, labour and food costs are impacting pricing for rooms, meetings, events and food and beverage (F&B). Managing rates and protecting profit without unduly affecting the customer experience will require hoteliers to:

- Re-evaluate their business mix across the following areas: leisure or business; group or individual; meetings or events.
- Understand the profitability of each segment.
- Protect, grow and diversify ancillary revenue streams.
- Develop new pricing structures.

Approaching 2023, balancing volume and rate will underpin pricing decisions and drive profitability.

Ground floor F&B and meeting room hire are under threat in city hotels as hybrid and homeworking continues.



WHAT DOES THIS MEAN FOR HOTELIERS?

1. Adopt a total revenue management approach and use key performance indicators (KPIs), such as TrevPAR, to support pricing decisions².
2. Pricing for conference or group business could impact profitability due to lower rate, as costs are high and leisure demand is falling.
3. To mitigate against falling ground floor revenue, target new segments such as bleisure (business & leisure) with pre- or post-stay value / product propositions.



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Re-imagine your offering and re-shape your experience to target consumers [ACCESS](#)



¹ Grant Thornton, 2022, International Business Report H1

² Fáilte Ireland, 2016, Cost Per Acquisition – Growing your direct online sales

KEY PRIORITIES FOR THE HOTEL SECTOR

Mitigating against Skills Shortages

Fifty percent of accommodation and food services staff that transitioned from the Pandemic Unemployment Payment (PUP) back to work did not return to their pre-pandemic employer. Approximately one-third (32%) of accommodation & food services staff that came off the Pandemic Unemployment Payment (PUP) and returned to work in 2021 moved to a new employer in a new sector (see Figure 1)³. This dearth of experienced staff has caused operational and service challenges. A good first step for hoteliers would be to review internal business processes and reduce, simplify, or automate accordingly.

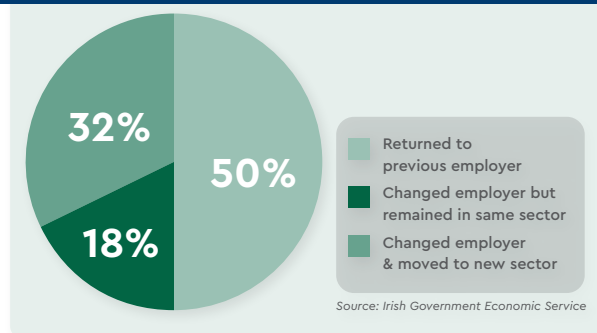


Figure 1: Status of Accommodation & Food Service Staff that transitioned from PUP back to Employment (as of Oct 2021), IGEEES

From a global perspective, the World Travel & Tourism Council (WTTC) estimates that:

- 11.24 million workers will be needed to meet expected demand for employees by Q3 2022 and a net EU staff shortage of 842,000 workers is expected.
- Nearly 1 in 9 vacancies is likely to remain unfilled with air transport and accommodation segments likely to

WHAT DOES THIS MEAN FOR HOTELIERS?

1. Review time consuming tasks in areas like reservations or sales and marketing. Are there any outdated daily procedures or legacy reports, or manual tasks that could be automated? Explore solutions with your staff.
2. Outsourcing specialist areas such as revenue management and digital marketing can deliver efficiencies and mitigate skill shortages.
3. Upskill senior teams in leadership, conflict resolution and succession planning. Understanding what their future role may look like, and working toward that, is a key motivator.
4. Identify your key business priorities, then build your organisational structure and leverage existing skills accordingly.

REPLACE TIME CONSUMING MANUAL PRACTICES WITH TECHNOLOGY

- Does your night porter still deliver paper invoices to guest rooms overnight?
- Do you offer online check-in / check-out for individuals and groups?

These are just two examples where technological solutions are readily available, providing efficient solutions for guests and freeing up staff to concentrate on exceptional service and upselling.

Hotel Tech is more powerful than ever, allowing hoteliers to leverage technology in areas ranging from guest communication and pricing to access management and website conversion optimization. [Click here](#) to find out more about the benefits of hotel technology.

Check out the [Smart Hotel Technology Guide](#) which identifies nine critical guest journey segments where hotels can utilise technology to offer smart and differentiated value propositions to engage guests and heighten experiences.

³ IGEEES, IGSS, April 2022, Trends in Post-PUP Employment: Examining the employment transitions of those closing their Pandemic Unemployment Payment claims

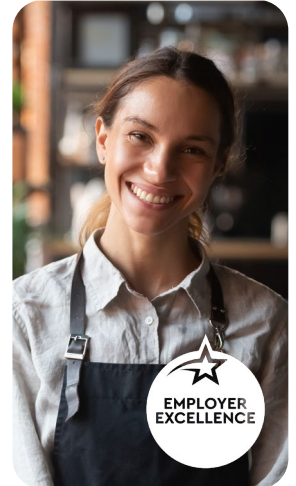
⁴ World Travel and Tourism Council, August 2022, Staff Shortages

KEY PRIORITIES FOR THE HOTEL SECTOR

Employer Excellence Programme

In the longer term, consideration should be given to participating in the Fáilte Ireland Employer Excellence Programme. It aims to embed strong employee engagement practices in tourism and hospitality businesses as well as providing a platform to showcase employers who are doing this well and therefore stand-out in a competitive recruitment market. Businesses will also have an opportunity to further develop in this area.

[Click here](#) to watch the video and find out more about the Employer Excellence Programme. Discover how it will help support businesses to drive great employee engagement, and help reposition the tourism sector as a rewarding and attractive place to work.



The Importance of Owning Your Customer

Increased demand, rising costs and capacity challenges have seen some hotels significantly reduce inventory with online travel agents (OTAs) and revise their distribution strategy.

A diverse distribution landscape helps keep commission costs in line

WHAT DOES THIS MEAN FOR HOTELIERS?

1. Use a good customer relationship management (CRM) system to drive direct bookings and build long-term loyalty. At a basic level, a CRM system can be used to build direct relationships with guests and drive repeat business, while a more advanced CRM system can also drive ancillary revenue by cross-selling across beverage, restaurant, spa or golf⁵.
2. Use technology to collect, manage and analyse all available guest data. If your hotel has a diverse portfolio across retail, F&B and alternative accommodation, don't forget to use the data collected on any standalone platforms (eg [Shopify](#) or [ResDiary](#)).
3. Segmentation is becoming ever more granular with guests expecting a tailored booking journey⁶. Use data from your website to inform decisions on cancellation terms, rates and packages.
4. Measurement is essential. Net RevPAR (net revenue generated per available room) is a good metric as it includes distribution and commission costs. Note that for some hotels, OTA business can actually be as cost effective as direct business once all costs are accounted for. The [Cost Per Acquisition](#) report has suggestions on enhanced KPI and profit indicators⁷.



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HOTEL CRM SOFTWARE: How to Know What to Look For in 2022 [Read here](#)

⁵ Phocuswire, 2022, [Personalising the Travel Relationship](#)

⁶ Duetto, 2022, [Re-booting Revenue: Refreshing Strategies for 2022 and beyond](#)

⁷ Fáilte Ireland, 2016, [Cost Per Acquisition – Growing your direct online sales](#)

PERFORMANCE

Ireland's reputation as a good value destination is something that the industry needs to be very conscious of. Any concerns that the reopening of international travel would negatively affect domestic demand in 2022 were mitigated by pent up demand and the return of events, concerts, and festivals.

- Demand soared in cities across Europe and Ireland was no different, with occupancy at or very close to 2019 levels – see Figure 2 below.
- Room rates for June 2022 increased by +24% vs June 2019, with an Average Daily Rates (ADR) of €170.75⁸.
- Concerts drove occupancy, with Westlife's August 12th Cork concert leading to 98% room occupancy in the city⁹.
- The 'usual' seasonal increases in travel, release of pent-up demand and high incidence of events have all contributed to a RevPAR/ADR performance that surpassed 2019 levels. Rising operational costs, predominantly energy prices and more broad-based inflation, as well as staffing challenges (which are restricting capacity and contributing to wage inflation) have also played a part.

Occupancy and ADR for Irish Hotels

COUNTY	JUNE OCCUPANCY		JUNE ADR		JULY OCCUPANCY		JULY ADR	
	2022	% pt Change vs 2019	2022	% pt Change vs 2019	2022	% pt Change vs 2019	2022	% pt Change vs 2019
DUBLIN	91%	-1	€202.82	+20%	87%	-1	€192.16	+25%
CORK	86%	-3	€165.71	+29%	86%	-0.1	€166.63	+37%
LIMERICK	89%	+11	€168.74	+4%	88%	+10	€173.38	+8%
GALWAY	83%	-2	€146.06	+25%	90%	-2	€179.27	+38%

Figure 2: Performance data for June & July 2022 with % relative change vs. same month 2019 for Dublin, Cork, Limerick & Galway, Fáilte Ireland Hotel Survey

WHAT DOES THIS MEAN FOR HOTELIERS?

1. Many hotels welcomed first time domestic guests in the period 2020 – 2022 as a result of the COVID-19 pandemic. Leverage their data to drive future stays, particularly for lower demand periods.
2. Analyse guest reviews and address any challenges guests faced during their stay. Building your reputation drives loyalty. A happy regular guest can be a powerful ambassador for your hotel.

View the monthly **Fáilte Ireland Hotel Surveys** [here](#) for performance data, room and bed occupancy rates, ADR and RevPAR by city and county.



⁸ Fáilte Ireland, June 2022, Fáilte Ireland Hotel Survey June 2022 Summary Report
⁹ Co-Star Group, 2022, Big-Name Concerts Boost Demand for Hotels in Europe

FUTURE DEMAND

Macro Demand Patterns

The following factors will undoubtedly influence future demand:

- The unstable geopolitical and economic environment.
- Although group and corporate demand are boosting performance, leisure RevPAR will be greater than corporate RevPAR in the US¹⁰. Indications are that this trend will be replicated across Europe this year. Full recovery to 2019 levels is not anticipated for a number of years¹¹.
- Leisure and luxury are seen to be leading the recovery¹².
- Concerts, events and incentive travel are driving occupancy.
- Foreign Direct Investment (FDI) into Ireland increased by 10% vs 2019 with the potential to boost corporate travel and conference bookings, but perhaps not to pre pandemic levels¹³.
- A strong US dollar (recently hitting parity with the euro) is influencing demand from the US and making Europe 10–15% less expensive for Americans than at the same time last year¹⁴.
- High weekend demand is partly making up for midweek reductions in international cities.

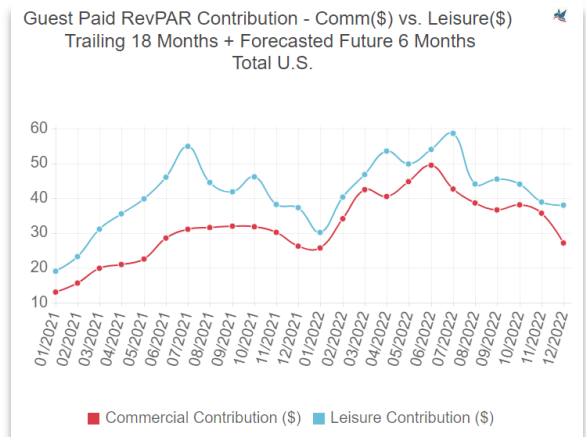


Figure 3: Guest Paid RevPAR Contribution – Commercial v Leisure – Kalibri Labs August 2022

Demand Drivers

Air access

Air travel underpins international tourism performance, with the sector operating against the following backdrop:

- Scheduled seat capacity to the Republic of Ireland (ROI) for 2022 is at 90% of its 2019 levels¹⁵.
- Risks to the near-term outlook for air travel include inflation, fuel rationing, recession and less international travel.
- The upside scenario for global international air passenger demand recovery (V'S same quarter 2019) is due in Q1 2024, however the downside scenario forecasts recovery in Q1 2028 with a baseline recovery by Q1 2025¹⁶.

Scheduled seat capacity

Mainland Europe	95%
GB	85%
North America	86%
Rest of world	80%
Total	90%

Figure 4: Scheduled Seat Capacity 2022 vs 2019 for overseas markets, OAG / Fáilte Ireland

Booking patterns

A short booking window and flexible cancellation terms are now the expectation for both B2C and B2B, domestic and international. Lead times across most channels are currently between 45 and 55 days, with some channels reporting cancellation rates of 30 – 40%.

Indications are that while forward international bookings may be low, this could partly be due to shorter booking times. This pattern has not changed significantly over the past two years but with less demand expected, hoteliers should factor it into their rate strategy.

¹⁰ Costar, May 2022, Hotel executives optimistic over recovering group, business demand

¹¹ Deloitte, April 2022, Reshaping the landscape: Corporate travel in 2022 and beyond

¹² Hotel Analyst, August 2022, Leisure and luxury lead recovery

¹³ IDA Ireland, 2022, Ireland sees record Foreign Direct Investment

¹⁴ Trip.com, August 2022, US traveller resurgence to Europe

¹⁵ OAG Schedule Analyser / Fáilte Ireland, September 2022, Air Access Update

¹⁶ Oxford Economics/IATA, Sept 2022, Air Passenger Forecasts

FUTURE DEMAND

Cost of living

Inflation will continue to influence consumer spending in the coming months. In June, inflation was 10.3% across the OECD¹⁷ and 9.6% in Ireland¹⁸. The rate of inflation is expected to remain elevated in the near term.

- Declining domestic consumer sentiment and spending power will impact leisure spend with hotels that rely on transient leisure business particularly challenged¹⁹.
- The Irish family segment is particularly at risk of cancelling, postponing, or reducing bed nights²⁰.
- In the US, people's personal financial situation and transportation costs are influencing travel decisions²¹.

Dublin Demand

- Dublin has seen significant RevPAR growth vs 2019 with lower tour operator and corporate business allowing for high-rate performance from B2C segments.
- Although booking windows are shortening (223 days in 2019, 193 days in 2022), the requirement for more in-person meetings is driving business²².
- In 2022 meetings and events drove high demand for Dublin hotels – monitoring this segment for conversion for future years is critical to maintain a base demand level²³.
- Expect that weekend demand and occupancy will continue to be high for Q4 2022, driven in part by concerts and events, e.g. Rugby Autumn Nations Series.

Regional City Demand

- Substantial RevPAR growth is being driven almost exclusively by increased average room rates.
- Occupancy is returning to or close to 2019 levels.
- Although Q4 may not see as many high occupancy dates as previous months, weekends will continue to drive rates.
- Cork hotels are reporting encouraging corporate activity for midweek dates from September.
- Galway hotels have benefitted from the return of festivals and events this year. At end of July RevPar for Galway was ahead of Cork and Limerick, with a 20% increase on 2019 levels²⁴.

¹⁷ [OECD, August 2022, Consumer Prices](#)

¹⁸ [Central Statistics Office, July 2022, Consumer Price Index \(Figure refers to HICP\)](#)

¹⁹ [Trading Economics, 2022, Ireland Consumer Confidence](#)

²⁰ [Fáilte Ireland Consumer Insights & Planning, July 2022, Domestic Tracker](#)

²¹ [Longwoods International, 2022, American Travel Sentiment Study Wave 61](#)

²² [Trending.ie, July 2022, Trending Report](#)

²³ [Hotel & Restaurant Times, February 2022, Events leading a better year ahead for Dublin hotels](#)

²⁴ [Trending.ie, July 2022, Trending Report](#)

WHAT DOES THIS MEAN FOR HOTELIERS?

1. As well as revenue from rooms and F&B, events support strong destination marketing (nationally and internationally). Align your messaging with regional events and collaborate with organisers to maximize opportunities.
2. Proactively manage channels:
 - Update content and images on partner and brand websites.
 - Remove outdated references to Covid-19.
 - Reflect seasonal messaging and offers.

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LOOKING AHEAD

Bringing it all together, the remainder of 2022 and Q1 2023 present significant challenges for hoteliers. The resilience and agility shown by the sector over the past two years are needed again as we look ahead. However, this should also be an opportunity during quieter periods to really examine rates, costs, and segmentation. While the Temporary Business Energy Support Scheme announced in Budget 2023 will provide some support, rising inflation and energy costs continue to pose a risk to operations, making now a more critical time than ever to put contingency plans in place.

1. Prioritise the management of volume related business (group, conference, incentive). Understanding how these segments contribute to Total Revenue Per Available Room is crucial. From enquiry to arrival, these pieces of business need strong, detailed, and proactive management.
2. The continuing drive towards direct business presents opportunities to win sales in the short term and build direct long-term relationships with guests.
3. To be commercially successful and sustainable, hoteliers continually need to ensure that their team, tasks and technology are fit for purpose in order to meet business goals and objectives.

Abbreviations

ADR – Average Daily Rate

B2B – Business to Business

B2C – Business to Consumer

CRM – Customer Relationship Management

F&B – Food and Beverage

FDI – Foreign Direct Investment

GOPPAR – Gross operating profit per available room.

Formula: Gross operating profit (GOP) / rooms available

KPI – Key Performance Indicator

OTA – Online Travel Agent

PUP – Pandemic Unemployment Payment

RevPAR – Revenue per available room. **Formula:** Rooms revenue / rooms available

TRevPAR – Total revenue per available room. **Formula:** Total revenue / rooms available

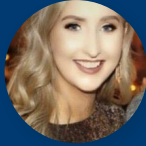
MEET THE ACCOMMODATION DEVELOPMENT TEAM



Weldon Mather,
Head of Accommodation Development
Fáilte Ireland



Jessica McKillop,
Accommodation Development Manager
Fáilte Ireland



Niamh McMenamin,
Accommodation Development Officer,
Fáilte Ireland

For more Research and Insights view
www.failteireland.ie

Email us at
AccommodationDevelopment@failteireland.ie



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