

Why have function rooms in hotels?

By Melvin Gold, Hotel Industry Consultant

Bedrooms are the main source of profit for hotels. True in virtually all cases. But that does not occur in isolation of other facilities in the property, except in budget hotels. The remaining facilities can be profit centres in their own right, but equally may contribute to the overall business. The hotel dining room is largely dead or dying, in its place a restaurant and bar have been born – hoteliers recognised that customers had a choice and were exercising it. Conference, meeting and/or banqueting suites are a more complex matter.

The market size is potentially huge. UKCAMS 2017, a report covering the segment, states that in 2016 in the UK there was an estimated £19.4bn of direct expenditure generated by conference and meeting delegates and organisers in venues and in wider destination spend. They estimate there were 1.45m conferences and meetings in the UK in 2016. Surveyed venues reported an average of 419 events with an average event size of 67 delegates. Although the average event duration was 1.6 days, most events lasted a day or less. The majority of events were held in hotels. Although the overall number of social events cannot be quantified, there were around a quarter of a million weddings in the UK in 2014.

To put that in a supply context, according to my research there were only 3,531 hotels in the UK with more than 50 bedrooms at the end of 2015 and around 1,500 of those were in budget brands (mainly without meeting rooms). That leaves only around 2,000 hotels across the country housing the majority of function facilities.

It is worth considering the specific characteristics of the required facilities:

- They require a significant space allocation, not just for the rooms themselves but also for the support elements including storage, servicing and kitchen facilities;
- The required functionality and design is very different for different uses – a corporate meeting room needs a different ‘look and feel’ than a wedding or banqueting venue;
- The sales and marketing to reach customers is multi-faceted depending on the varying uses. A large multi-purpose suite may need to be pitched to the local corporate market, regional or national specialist conference placement agencies as well as the local population in respect of weddings and social functions;
- The function areas should be a profit centres in their own right but will often generate bedroom and food and beverage sales;
- The revenue, and consequently profit, from such facilities is almost entirely generated for the hotel/venue. Whether for a full conference programme or for a wedding or social event most of the customer/client spend will take place in the hotel/venue which is not the case for most other hotel demand segments.

In most cases the inclusion of conference, meeting and banqueting facilities can enhance the hotel’s reputation because it is incumbent on the hotel to ensure that those facilities are widely marketed to the community in which it is located. As noted above, that includes the corporate market as well as the residential population. That becomes a symbiotic relationship, at least in the ideal world, with each benefiting from the other.

But is it profitable and does it enhance the value of the hotel? That is a much more difficult question to answer, perhaps impossible, at least as a generalisation.

To make an assessment the utilisation of the facilities would need to be understood as well as the price charged and the overall impact on the remainder of the property. Is a banqueting suite that is used for weddings and social events on 30 days per year and an intensive period around Christmas profitable? Is a conference suite with breakout facilities that is used on 2

weekdays through 4 months of the year likely to be profitable? We cannot know for sure. It may even be argued as to whether individual hoteliers truly know the profitability of this, or other elements, of their business. It is a part of the whole hotel and has to be considered not just at the operating level but also in terms of the capital costs of creating and allocating the space, and also in respect of the lost opportunity of other facilities that might more profitably occupy that space.

The decision as to whether to include such facilities may be more complex. Sometimes there can be a brand compliance or grading system issue as well, where certain facilities are required by a brand or to achieve a star grading. A hotelier or investor might have to include them to achieve their business objective. It may be that a space allocation to meet those facilities is actually less financially beneficial than the creation of bedrooms or some other facility within that same space. That is a conundrum.

That challenge has spawned a variety of alternative categories of hotels, and new hotel brands. Budget hotels, aparthotels, serviced apartments and boutique hotels are among the examples of products that have emerged to optimise the bedroom space and often minimise non-rooms facilities. There are many examples of the success of all of them, but that has often been achieved in smaller lot sizes, perhaps reflecting that certain market segments are excluded by shrinking the support facilities. The full service hotel, with a full range of support facilities, seeks to optimise all available market segments, optimise demand in the weekly and annual seasonality of the market where it is situated, even if that means that for some of the time some of the facilities are under-utilised.

The considerations of brand, grade and facilities may receive (rightly!) detailed consideration and analysis in any new development. That is relatively easy to achieve and we would expect today's professional investors, together with contracted management companies, to work together to optimise the solution within the market context. What about existing hotels? Perhaps surprisingly there are relatively few examples of hotels converting their function areas to alternative uses? Whereas there have been many examples of hotels franchising or contracting their food and beverage space to third party operators with typically favourable results, a similar solution can rarely be adopted for function space. This is partly due to the technical complexities and cost of conversion within an existing building. Arguably it is also because the conversion of function space to alternative uses can cause a fundamental shift in the business model of a hotel, even where such space is relatively under-utilised.

From an investor perspective most deals, whether new developments or acquisition of existing assets, are undertaken based on the earnings stream generated or expected to be generated. Investors are unlikely to be deterred by the mix of facilities within a hotel but they are likely to only be willing to pay for the facilities that are generating profit. Underperforming conference, meeting and banqueting facilities will not deter investors, but will simply be reflected at the level of value they add. Investors of course may perceive an opportunity to extract value from underperforming facilities, either through investment, improved sales and marketing (or branding) or perhaps from conversion to a different use.

There is no doubt that there are many dimensions to consider related to the inclusion of function rooms in hotels – one size does not fit all – but there is a substantial market segment to penetrate when the right decision is made, which can benefit the whole hotel.

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