

WHITE PAPER

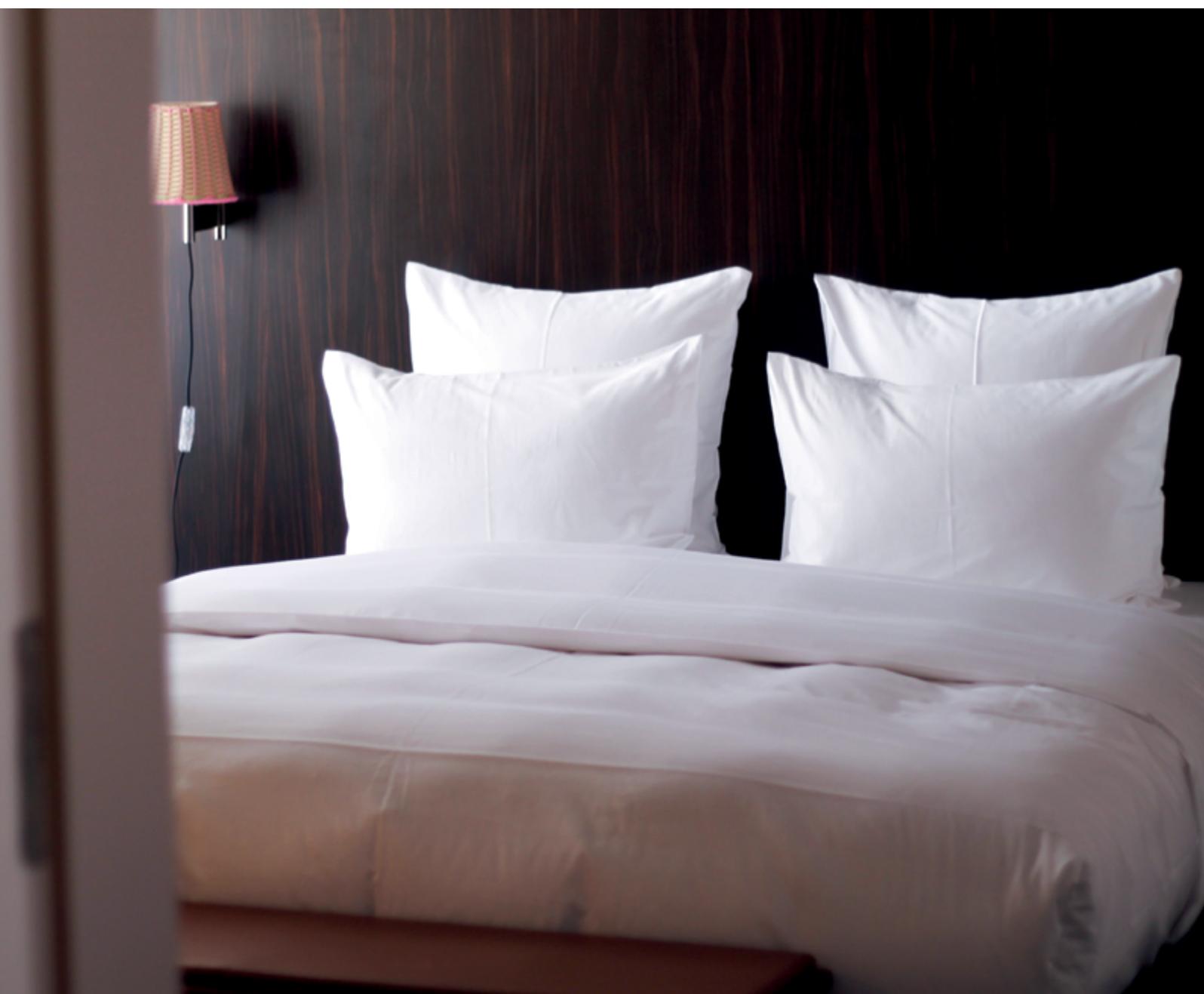
Hospitality Inflation Report 2023

Data-Based Insights and Benchmarks to Drive
Ancillary Revenue



Contents

1	Introduction	_04
2	Using data to drive ancillary revenue	_05
3	Price developments by items and services	_07
4	Price developments by hotel stars	_10
5	Conclusion	_12



1

Introduction

Despite the challenges of the pandemic, the hospitality industry made a strong recovery in 2022. Hotel market analyst STR reported that Europe's average daily rate (ADR) increased by 18.5% to \$148.9, despite a 10.5% decrease in the average occupancy rate¹. Except for Asia, most global regions experienced this positive trend.

The increase in hotel room prices is substantial, even in an environment accustomed to a high inflation rate which currently stands at 9.2% for the euro area². And yet the ADR growth doubled that.

The ability to cope with inflation and pass on higher energy prices and wages to customers is one of the great strengths of the hospitality industry. It is also a factor that makes hotels interesting as an asset class for investors. Just imagine: compared to other ways of using real estate, like an apartment building or office building with long-term leases, hotels can change their prices daily, offering a massive advantage these days.

While this is all excellent news for the industry, one lingering question remains: Is this development also reflected in hotels' ancillary services?

SuitePad has a unique position to provide an answer to said question. Using our in-room tablets, guests view and order hotel ancillaries digitally. As a result, we can analyze guest behavior on our platform, including their preferences and spending habits, and—essential for this report—evaluate the prices hotels give to these services.

Our findings will demonstrate that hotels should strongly consider increasing their prices, particularly for room service and spa treatments. Additionally, the results will provide valuable benchmarks by hotel star ratings on what other hotels did in 2022 in response to high inflation.

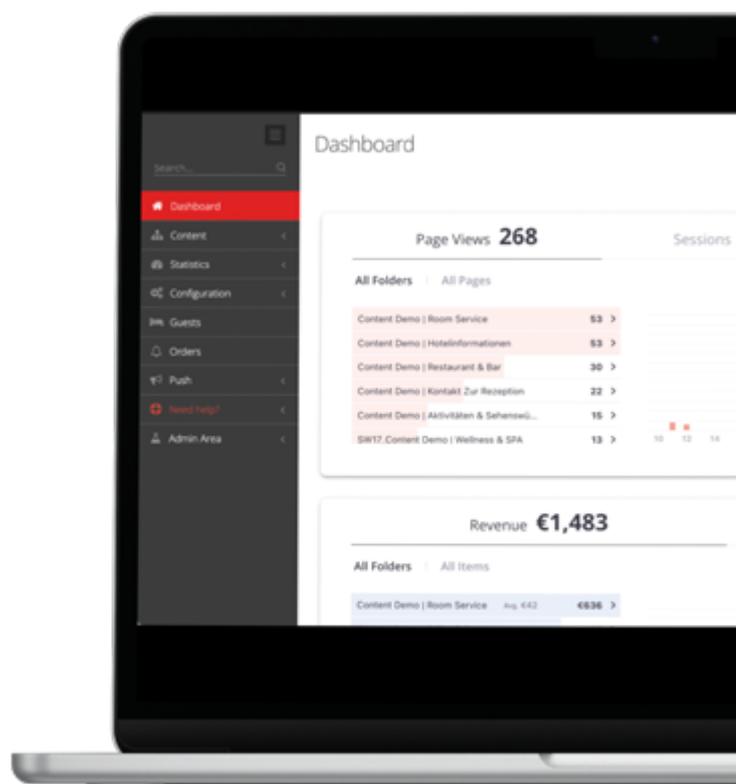
2

Using data to drive ancillary revenue

With our cloud-based management system, hoteliers can seamlessly integrate a user-friendly booking tool for additional services, including room service, spa appointments, and more, in their in-room tablet installation. The hotel management determines and adjusts the prices of these services independently.

At SuitePad, we utilize the booking tool data to gain exclusive insights into pricing patterns, which we leverage to support the hotel industry in maximizing its revenue potential. To create this report, we analyzed the four most critical ancillary services related to upselling, benchmarked against hotel star ratings.

For hoteliers and managers, this information is truly invaluable. With our key takeaways, you can compare and adjust pricing strategies and tailor your ancillary service offers to navigate the current inflation challenges confidently.



THE DATA³

We analyzed data from several hundred hotel installations in our system that implemented SuitePad before 2022, with our customer base primarily situated in the EMEA region.

Next, we identified relevant items and services from their installations to include in our sample and compared the ancillaries' pricing between 2021 and 2022. We only selected items and services that hotels offered in both years. Consequently, we disregarded all newly added items and services without a reference period.

3

Price developments by items and services

After analyzing overall price developments on ancillaries available on our customers' SuitePads, we detected a general price increase of around 7% in 2022 compared to the same items and services on offer in 2021.

Although a 7% increase may seem significant, it stays below the current inflation rate of 9.2% in the euro area. Furthermore, compared to the 18.5% price increase of the ADR in European hotels in 2022 (see page 4), this number appears even more modest.

We have identified the four most significant hotel upselling categories to gain a more comprehensive understanding of the data. These categories are:

-  Breakfast Menus
-  Room Service Food
-  Room Service Drinks
-  Massages and Cosmetic Treatments



Annual price increase in percent in 2022 (compared to 2021)

Breakfast Menus

The data clearly indicates that the prices of hotel breakfast menus have increased considerably more than those for room service or massages and cosmetic treatments. While there may be numerous explanations for this phenomenon, we believe it is mainly due to hotels bundling breakfast with the room rate. As the room rates have increased, breakfast prices have risen in tandem.

In other words, if a guest is willing to spend 20% more on his room, he is certainly ready to spend 10% more on his breakfast.

Room Service

The prices for room service food items were increased by approximately 7.4%. This increase falls below the average euro area inflation rate and remains lower than the average price increase consumers were experiencing in restaurants. In comparison: In 2022, prices for a main dish in Germany increased by around 10.4%⁴.

The development is similar for alcoholic drinks. While German restaurants increased prices by 7.5%, hotels only raised their alcoholic room service beverage prices by 6.7%.

Although some guests may still perceive room service as expensive, in relative terms, it was

cheaper to order food in-room than eat out at a restaurant in 2022. Either way, it presents an opportunity for hotels to consider raising their room service prices further.

Massages and Cosmetic Treatments

Hotels have raised the prices of massages and cosmetic treatments by the smallest margin of 6.2%.

That said, data from the US reveals that in 2022, wages in the hospitality industry rose more quickly than the average wage (6.6% in hospitality vs. 5.1% on average)⁵. If we assume Europe experienced similar trends, then hotels have increased their prices below the relative increase of the most critical cost driver for spa treatments.

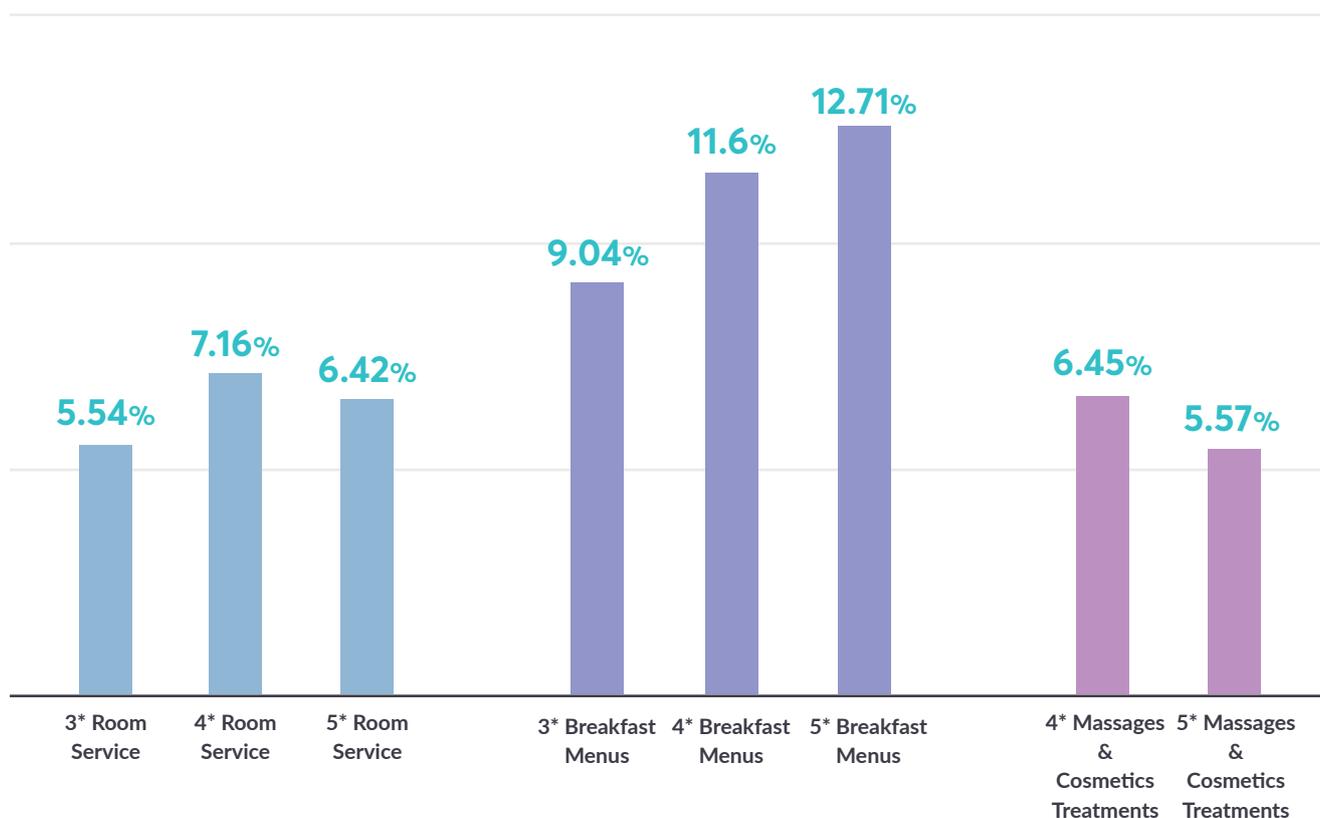
It is important to consider that although labor costs are the primary driver of treatment costs, both energy and financing costs also influence the overall spa infrastructure. Therefore, as energy and interest rates rose significantly in 2022, hotels should strongly consider raising the prices of their spa treatments.

4

Price developments by hotel star ratings

Aiming to gain an even more comprehensive understanding of how the hospitality industry responded to high inflation, we examined how hotels with varying star ratings reacted to the developments.

Typically, the more stars a hotel has, the more luxurious and upscale the ancillary services are expected to be. Consequently, our sample did not include three-star hotels with massages and cosmetic treatments, as the data would not have been representative.



Annual price increase in percent in 2022 by hotel star ratings (compared to 2021)

Our analysis found that hotels with different star ratings had distinct approaches to price increases in response to high inflation. For example, although five-star hotels were the most assertive in raising breakfast prices, they have been cautious in increasing them for room service items and spa treatments.

In contrast, four-star hotels showed the highest price increase for both room service and spa treatments.

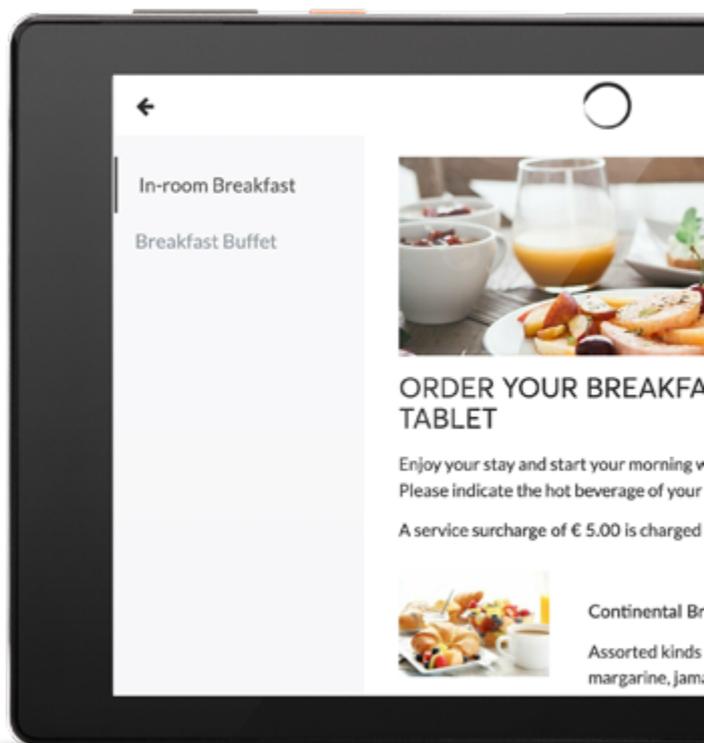
Considering the relatively lower price increase of room service items compared to restaurant dishes (see page 9), five-star hotels have the potential to take advantage of their high-end services and significantly increase their room service prices by another 3 to 5%. It would help maintain the quality of their offers and ensure the hotels remain profitable.

5

Conclusion

In 2022, hotels did exceptionally well in raising their rooms' prices. The development of the average daily rate (ADR) in Europe can be attributed, in part, to the disruptive impact of COVID on the hospitality industry. However, it also speaks to the willingness of guests to invest in high-quality services and unforgettable experiences.

Hotels successfully increased the price of their breakfast menu with the rising room rates. However, they should have applied a similar pricing strategy to their room service offers. Not only because room service, like breakfast, falls under the F&B category but also because providing it involves considerably more work and labor costs.



It seems that hotels capitalized on the higher demand and willingness of guests to pay for booking rooms but were hesitant to increase prices for ancillary services. Yet, there is no reason not to.

On the contrary: When it comes to offering spa treatments or room service, hotels find themselves in a monopolistic position as guests are less likely to seek these services at another hotel. While they compete with neighboring properties during the room booking process, the unique nature of ancillary services means that customers are more likely to remain loyal during their stay.

That is why we want to encourage hoteliers to increase their prices on room service, spa treatments, and other ancillary services. Hotels' current market conditions and monopolistic position in providing such services present a unique opportunity to maximize their profits.

Here is one last thought to consider: In this report, we looked at data from hoteliers who had a straightforward way of adjusting their prices to the current situation. All SuitePad customers have to do is log on to our backend and select new prices for their services, hit the save button, and within seconds all their in-room tablets are up to date.

Hoteliers who do not have solutions like ours will likely find it much harder to change their pricing as they have to print and distribute paper-based information. That is not just very expensive from a workflow perspective but also creates massive opportunity costs. As a result, we believe that hotels utilizing our system are more likely to raise their prices. Consequently, data on hotels with paper-based price lists may indicate that the increase in ancillary service prices is and will stay even lower than what we have shown.

As the owner of the hotel, I live on the other side of the world but **can always make any updates and price adjustments** our guests need to know from my home [...] Today I can no longer imagine how we used to be able to manage the constant updates with a folder and paper.

Luxury Hotel in South Africa
on HotelTechReport.com⁶

Sources

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Are you interested in using SuitePad at your hotel?

Feel free to contact us for more information and an obligation-free consultation.



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