

# Human Resources: Remuneration and the strength of the industry

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It is by now a well-known fact that 2006 was a very strong year for the UK hotel industry. With no major terrorism activities, animal related diseases, or economic hiccups to contend with, UK hoteliers were more likely faced with the problem of how to cope with mounting demand. RevPAR figures for Europe show that London was the leader of the pack at 168.83\* (£112.40). Elsewhere in the UK, Bath, Belfast, Aberdeen and Liverpool all recorded significant increases of at least 9% in year-on-year RevPAR over 2005. This robust performance is predicted to continue throughout 2007 with no likely tapering off expected before 2008.

Strong financial performance often translates into a healthy pay packet for those producing the sweat to attain such results; the theory being that when times are good people do well, when they are bad everyone suffers. To investigate if this is really the case in the UK hotel market, HVS conducted a study of salary and benefit levels awarded to hoteliers in London in 2006. The survey captured data from three, four, and five-star hotels in London and reported results for all employee grades from line level positions, such as waiter and laundry attendant, to executive management positions such as General Manager and Director of Sales and Marketing.

The results of the survey indicate that base salary levels did indeed increase in 2006. The median hotel employee salary in London rose by 4.5% in 2006 over 2005 and the median annual base salary for employees at three, four and five-star hotels in London is £18,287 compared to £17,503 in 2005. Such an increase however is broadly in line with inflation and cannot be viewed as a significant rise due to improved hotel performance. A clearer example of where healthy revenue streams impact take-home pay is in the discipline of Sales and Marketing. The median departmental salary in Sales and Marketing among the same comparison group rose by 22% year on year. Pity those in the Rooms division, however, which recorded the lowest increase.

The table below illustrates the range in base salaries for six key positions in London:

## 3, 4 & 5 Star London Hotels

Annual Base Salary	Minimum	25th Percentile	50th Percentile	75th Percentile	Maximum
Banqueting Head Waiter	£12,750	£16,500	£19,123	£21,630	£29,265
Executive Sous Chef	£17,510	£28,007	£31,770	£37,956	£53,931
Fine Dining Restaurant Manager	£15,000	£22,250	£27,982	£33,108	£50,000
Front Office Manager	£19,469	£24,708	£32,000	£36,330	£44,982
Sales Manager	£21,000	£26,836	£27,989	£30,937	£34,500
Senior Housekeeper	£13,515	£17,391	£19,584	£21,599	£26,047

\*Source: The Bench™

Having analysed the broad results, HVS then took out its magnifying glass to see where the better salaries are made. We divided the peer group by size (number of rooms) and class to see if any disparity was evident when paying hotel staff. It was readily apparent that salary levels were not consistently influenced by the size of the hotel. The bigger hotels did indeed record the highest median base salaries but median base salaries awarded to Front Office Managers for example were higher at hotels of less than 200 rooms than at those of 200 - 400 rooms.

### Annual Base Salary by Room Court

Front Office Manager	Median
<200 rooms	£30,000
200-400 rooms	£28,613
>400 rooms	£34,000

On splitting the data by hotel class we see a much clearer distinction in salary levels. For example, when looking at Front Office Manager salaries at five-star hotels versus four-star and three-star hotels there is a clear upward progression in median salary levels as the hotel's classification increases.

### Annual Base Salary by Hotel Class

Front Office Manager	Median
3-Star	£24,000
4-Star	£25,875
5-Star	£33,317

Base salary however is only one element of an employee's remuneration. A well-structured remuneration programme can play a vital role in the attraction and retention of high performing employees and has a key place in a company's overall Human Resources strategy. Remuneration can, and should, often include a number of different components in addition to base salary, such as bonus and long-term incentives. Benefits also have a place, whether of the traditional kind like health insurance or pension, or of the 'well-being' kind such as childcare or home-working options.

Of particular interest is the bonus element. If base salaries were not showing any substantial increase then it would be natural to expect employees benefiting from the good times in another way. In fact, the bonus is generally regarded as a more effective way of rewarding high performance than increasing base salary as it motivates the employee to achieve certain benchmarks and is also easily managed from a cost basis (if business suddenly dips you are not left with a high base salary burden on your payroll entry).

In the true fashion of performance-related-pay, hotel General Managers' earning power is closely tied to the financial results of their hotels. Trading conditions in London have continually improved since 2003 and the impact on General Manager bonus levels when comparing 2006 to 2003 is quite evident. The average bonus payout to a General Manager of a five-star hotel in London last year was £38,344. This represented a hike of 41% over that of 2003.

## Key Issues: Human Resources: Remuneration and the strength of the Industry

### General Manager

2006 Average Last Annual Paid Bonus	£38,344
2003 Average Last Annual Paid Bonus	£27,123
Increase	41%

Target bonuses are typically in the 25–40% of base salary range and the results for 2006 indicated that, unlike 2003, most General Managers were making targets. The following table illustrates the bonus award as a percentage of annual base salary and shows that more General Managers last year successfully hit their bonus targets.

General Manager	25th Percentile	50th Percentile	75th Percentile
2003 Last Annual Paid Bonus as % of Base Salary	6.45%	11.54%	22.20%
2006 Last Annual Paid Bonus as % of Base Salary	24.50%	27.00%	36.25%

Outside of hotel operations, the big trend of 2006 was the move away from owned real estate to pure management by most of the large hotel operators such as Hilton, Starwood, InterContinental, and Marriott. This concentrated focus on management and brands resulted in these companies rapidly seeking to boost their hotel development teams and hire Development Directors, who could source and negotiate management contracts on their behalf. In this arena, professionals are heavily incentivised to achieve set targets and their bonus structures reflect this. A UK based VP Development for Europe with a major international hotel chain for example will typically earn a bonus equal to anywhere between 25% and 100% of base salary. The following table illustrates the potential target bonuses on offer as well as how the actual achieved bonuses compare.

VP Development Europe – UK based	Minimum	25th Percentile	50th Percentile	75th Percentile	Maximum
Annual Target Bonus (%)	25.00%	32.00%	80.00%	80.00%	90.00%
Paid Bonus as % of Base Salary	30.03%	42.53%	55.02%	67.51%	80.00%

Given the current investment climate in the hotel sector we expect to see development professionals continue to achieve healthy bonuses and, in particular, there is big money to be made by those involved in the acquisition side on behalf of investment banks and private equity firms. Hotel operators too should continue to do well in 2007 if business performance lives up to expectations. When reviewing this year's salary levels we certainly expect to see moderate increases in base salary but more significant increases in bonus payments by those companies that recognise and appreciate the concept of pay-for-performance.