

Lodging Management Companies Expert Management or Incremental Revenues?

As a hotel owner/investor with perhaps one or two hotel assets, you have invested your hard-earned capital and risked exposure to recourse on your loans in pursuit of a profitable lodging operation. Moreover, given your limited exposure to the hotel industry, you may have selected a professional management firm to operate your hotel. Perhaps a “first-tier” management firm, a company that not only franchises hotels but also provides management services. Alternatively, you may have selected a “second-tier” firm. That is a hotel owner/franchise holder with dozens, maybe even hundreds of hotels who manage their own assets and those of others. Or perhaps you may have chosen a smaller, boutique firm with possibly a hotel or two of their own who are seeking to grow their management portfolio. No matter whom you have selected, you are expecting that they will have your best interests at heart with each decision they make. Well that may not exactly be the case.

The goals of lodging property owners and investors are infrequently philosophically or financially fully aligned with the goals their appointed management or at times even their brand. Operators and brands often have competing objectives, which are in direct conflict with maximizing owners’ return. For example, brands have a stake in maintaining brand standards and creating “brand equity” which may not always be in the best economic interests of an individual lodging asset. Sure brands will argue that what’s good for the brand will have some trickle down affect on you, but changing your brand new wallpaper behind the front desk from one shade of beige to a shade the brand wants to install at all of its hotels (which I have been asked to do by a major brand - who shall remain nameless) is really just a poor use of capital that will never impact either revenues or guest satisfaction.

Management companies, on the other hand, have an interest in growing their portfolios and their revenues (usually a percentage of yours) but may not be motivated to assist your lodging operation in achieving its individual peak financial performance in the short, or worse, long term. They may also lack expertise or the incentive to control costs, target the best market position for an individual property, maximize a hotel’s market penetration or possess the knowledge to find their way through the myriad of old and new distribution channels.

Given that the average management fees, which are currently around 2.5% of a hotel’s overall gross revenues (including any incentive fees), are significantly below the fees of yesteryear, is it any wonder. Over the last few years, in an attempt to grow revenues, management firms are focused on creating incremental revenue by adding properties to their roster at lower fees. Many of these firms are keeping the same amount of personnel and resources in place spreading them over more assets.

Take the following example. At the current rate of fees, an additional \$25,000 in hotel revenues represents about \$500 in fees. Let’s face it, \$500 is not a significant enough return on the additional

efforts, staff time and resource allocations that would be required by the management firm to generate that additional \$25,000. However, as the owner, it can make the difference between paying your mortgage from cash flow or out of your pocket.

The economic facts just don't add up. Consider a typical, select-service hotel with 100 guest rooms, an average daily rate of \$70 and a 70% annual occupancy. The average fees for this hotel would be around \$35,000. With management firms per hotel revenues at this low level, what can an owner truly expect of them? While your hotel may benefit from any buying power, it will also absorb any expenses derived from the management firms related travel, accounting services, co-operative marketing, etc. This is often an area where some revenue lost in the last few years is re-gained by some less scrupulous management firms.

When fees are at this low level, the game becomes volume. It is not my intention to bash any management firm. I was the Chief Operating Officer of three small to mid-size firms operating national brands as well as luxury independent hotels and I currently represent many hotel owners through our consulting practice. I see both sides of the issue. But... there are few business focused on volume sales in any industry that come to mind as being known for outstanding levels of service to its customers.

So what is an owner to do? Become an informed owner who takes charge in monitoring their hotel's performance (or who hires someone to do so for them). Realize that for \$35,000 a year in fees, your services may be restricted to limited oversight of an on property manager; hopefully a good one. If you engage a management firm now or are in the stages of interviewing one, ask yourself some questions about your relationship and how you will be informed of your hotel's level of success. You may not need all of the suggested information below but you most certainly need some. Ask yourself do you...

- Get a report from a representative of the firm who is on-site for a day or two each month detailing their findings of the physical plant, operations and sales efforts by the personnel they supervise? Does their finding match yours?
- Receive timely monthly operational statements that compare results to the budget and last year?
- Receive monthly reports on the hotel's performance as measured by third party firms such as;
 - 1.) Smith Travel Research's STAR report to review your REVPAR performance against an accurate competitive set and market tract;
 - 2.) TravelClick's Hotelligence reports to measure your GDS penetration;
 - 3.) Distribution channel contribution reports to review your brand, internet, wholesaler, GDS and other contributions to your revenues?
- Receive monthly booking pace reports to review where you stand in revenues compared to the same time last year along with an action plan for improvement?

- Receive monthly sales reports such as; Top Client Report demonstrating the hotel's top 20 clients' productivity and changes in their productivity year-over-year; reports on the returns generated from advertising expenditures in pay-per-click, GDS, print and other advertising media; and Sales Person Productivity Reports to determine who is selling and producing at your hotel?
- Receive reports on the effectiveness of your reservations department (such as turndown and conversion reports) and the quality of a guest's stay through secret shopper calls or visits?
- receive monthly reports on the satisfaction levels of your guests and your staff as compared to your brand or similar hotels?
- Receive reports on industry performance in the areas of profitability, expenses, labor costs, REVPAR generation and market penetration of your hotel at least annually to compare your management company's performance?
- Receive annual reports on the changes in the market such as more or fewer competitors, new or closed businesses or industries in the area?
- Receive an annual marketing plan with monthly or quarterly updates on progress?
- Receive assistance in planning and implementing capital projects?
- Receive an annual report on the condition of the asset and franchise compliance?

As an owner the ball is on your court and many times you hire a management firm because you are too busy to involve yourself in the details needed to assure that your return on your hotel investment is maximized. Perhaps it is time for you to make time to investigate if this is happening?

About the Author:

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