

5 FATAL MANAGEMENT COMPANY DEFICIENCIES THAT DESTROY CASH FLOW

Most people believe that they do a good job at what they do, however the people that typically do the best jobs recognize that there is always room for improvement and are continually evaluating and striving to achieve excellence. The hotel industry is a very dynamic and complex, thus requires continual effort to stay educated on the best systems and procedures necessary to successfully manage hotels in order to achieve maximum profits and long term value. With over 100 years collectively in the hotel industry and seeing success and failure, my executive team and I have compiled this complimentary report, 5 FATAL MANAGEMENT COMPANY DEFICIENCIES THAT DESTROY CASH FLOW. Herein, we begin to reveal what can be done to systematically mitigate your risk of loss while strategically and wisely planning to radically improve the probability of achieving greater profits and value.

Understanding these five deficiencies and than managing your hotels to avoid them will make the difference between profiting in the hotel industry or alternatively being one of those executives or owners who have mastered the blame speeches on why results are not being achieved.

DEFICIENCY #1: WEAK SALES AND MARKETING EFFORT

A weak sales and marketing effort will dramatically impact a hotel's revenue, profitability and value and is more often defined by what is not being done vs. what is being done. In this day and age, there are literally hundreds of ways to drive customers to your hotel and we continually observe hotel owners and managers that spend money on ineffective personnel and programs that prevent the properties from realizing their full potential and value. Many hotel operators rely heavily on the hotel brand reservation systems to generate business and do very little that effectively "brings" new business to their hotel. Yes, they may hire a sales manager, but then they do little to actually "manage" their sales resources. Sales and marketing programs for hotel properties are fast changing in this era of high technology and must incorporate the following to achieve the full potential for any property:

Personnel and Training – Hiring the best qualified personnel that are properly managed and trained is the most important key to success in any sales and marketing effort. Sales training programs should also include the front desk staff, as having a properly trained front desk staff has proven to be a very cost effective way to enhance revenue.

Sales and Marketing Plan – A strategic, well thought-out and expertly executed sales and marketing plan is a critical component to maximizing returns. This plan will serve as a road-map to achieving the sales goals and will position your sales and marketing department to be both efficient and effective and your team will clearly understand what is expected leading to higher job satisfaction.

Revenue Management Program – A complete and effective revenue management program is another component to a successful sales and marketing program. In a hotel environment where demand changes daily, managing rate and complex reservations systems to capture the optimal customer mix that maximizes revenue is a very dynamic process that requires a full understanding of the competitive landscape on a real-time basis.

Keeping up with Change – Our world and how we do business continues to rapidly change and nowhere is this more rampant than in how products and services are marketed. Understanding all marketing options and technologies, then implementing the most cost effective ones will put you ahead of the competition. Keep in mind - the best solutions yesterday are likely no longer the best solutions today.

Branding – In today's highly competitive environment, brand affiliation can have a dramatic impact on cash flow performance, even after factoring in the direct costs of the brand. An excellent example of the value of a brand is to compare the patronage at a Starbucks to any nearby local coffee shop. You will likely see twice as many customers in the Starbucks. Strong brand affiliation will drive higher revenue and reduce other marketing related costs, not to mention reducing investment risk.

DEFICIENCY #2: INADEQUATE COST CONTROL SYSTEMS AND PROCEDURES

The question is not whether a hotel property is managed with some form of cost control systems in place, as most will have some systems to manage their business. The real question should focus on how comprehensive those systems and procedures are and how diligent the

management is in implementing those systems. Below are some of the systems and procedures that should be focused on to maximize cash flow:

Contract Review - Every lease and operating contract should be reviewed on a regular basis and either eliminated or rebid in order to provide the best value to the hotel without sacrificing the quality of the guest services.

Labor Tracking – A system should be in place that tracks actual personnel performance to expected performance on a daily basis, such as the number of minutes to clean a room for the housekeeping staff.

Collection System – Revenue only has value if and when collected.

Purchasing Platform - Having the best purchasing program is critical for expense management. Purchasing platforms should ideally have consistent prices across the board, online purchase system, electronic purchase orders, and purchase reports by property that are used as management tool to better monitor property purchases, and a drop shipment program - saving money on bulk purchases and management time. A good purchasing platform will provide a consistent and known quality of products and will make auditing property purchases an easy task.

Property Taxes Appeals – Property taxes should be reviewed annually by a tax specialist and appealed where savings are expected, with costs of the review and appeal service based on percentage of actual savings.

Centralized Accounting – Centralized accounting will not only provide a more cost effective and consistent solution for completing monthly reports, it will also provide a higher level of assurance that funds are managed properly.

DEFICIENCY #3: POOR OR NON-EXISTENT BUSINESS PLANNING

Proactive business planning is absolutely critical to successful management of any hotel. It serves as a roadmap providing management with an operational tool to establish and achieve ownership's goals for a property and provides a benchmarking system to planning activities that maximize profitability over both the short and long term. Without an effective business planning process with follow-up review systems, performance will likely be sub-par and one will have no real basis for measuring success. Further, without clear planning systems your organization will

be dysfunctional and result in a less satisfying work environment for your hotel's management staff. If you don't know and plan where you are going, you will never get there. Below are outlined a few key elements that every effective business planning systems should incorporate:

Time Horizons – Business plans should be done on a 1-year and 5-year basis with updating done on a regular frequency with a shorter term outlook such as 90 days.

Competitive Positioning Review – Business planning should include a full assessment of how effective the property is positioned against its competition and should identify where revenue enhancement opportunities exist and what kind of effort or investment is necessary to capture this untapped revenue potential.

Budget – It is absolutely critical that all properties should have a budget that is used as a management tool to effectively operate a property and control costs. The budgets should be prepared by the General Manager, with input from each department head. There should be a system in place where each department head and the General Manager are evaluated on their performance compared to budget.

Capital Improvements – In order for your hotel to maintain its competitive position over time, you will need to reinvest in your facilities on a regular basis. Hotel renovations can be relatively expensive, sometimes costing millions and therefore will require proper planning to establish sufficient reserves – to make improvements as needed and desired. If you are unable to make necessary or brand required capital improvements, you will lose market share which will negatively impact cash flow and value and further may result in losing your flag (i.e. hotel brand affiliation). The flag, if lost, will prove to be a critical component to the value of the property.

Follow-up systems – For good planning to really payoff, management procedures should be established to continually review actual performance and compare this performance to the business plan to determine how the property is doing. These follow-up procedures will provide the necessary focus to establish priorities where operational adjustments can be made to achieve your business goals on a go-forward basis.

DEFICIENCY #4: ASSOCIATE RELATIONS LACKING

One of key pillars to a successful business is having an organizational culture centered on its people. Having a rewarding and fulfilling work environment will position your property to

achieve its maximum potential while reducing turnover, increasing employee's personal feelings of effectiveness, not to mention their job, work, and life satisfaction. This people-based culture should incorporate the following:

Training – Having ongoing training programs for all levels of your organization will help establish you as a leader in your business as well set the stage for achieving the best performance from your property's workforce. This translates into higher revenue potential, a happier staff, lower operating costs and more positive guest experience.

Retention – Employee turnover is typically an un-quantified expense, but industry experts estimate that a turnover can cost 25% of the employee's annual wages for property staff and 150% or more for a general manager or director of sales. When turnover occurs, you lose someone who has valuable knowledge about how you do business which can lead to a disruption in customer service and potentially snowball into additional turnover. One of the easiest ways to keep good employees is to create a positive and fun work environment that provides opportunities of personal growth and continually provide them feedback on their contribution and importance to the organization.

Feedback – Having systems in place that provide continual feedback is not only helpful in tracking the success of meeting the organization's goals, it also provides employees with knowledge on how well they are doing their job and contributing to the success of the organization. These systems can both empower and motivate the employees to help achieve the operational excellence and provide a basis for incentive based competition.

Culture - Every organization has a culture that controls the way its people interact with each other and its stakeholders outside of the organization. An organizational culture is a function of the collection of values and norms that are shared by its people, and which creates the expected and accepted behaviors of the organization. Culture impacts how effective an organization operates, how satisfied its employees and customers are, and ultimately whether or not an organization is successful.

Personnel Audit – Staffing should be reviewed on a periodic basis to determine if there is an optimal mix of employees. Often, properties are overstaffed in some departments and understaffed in other departments, which leads to higher overall expenses and weaker, less

effective performance. Salaries and benefits should also be reviewed and adjusted where appropriate

Management Company Supervision – Often, hotel management companies will leave their General Manager's in full control of the management of a property without any guidance or supervision. This approach may work at times, but often can lead to a complete disaster. The fact is, a good General Manager will not stay at one location forever and if a management company does not provide adequate ongoing supervision, it will be unable to maximize performance when personnel changes occur. Further, without proper supervision, the management company will be unable to detect when operational problems exist.

Associate Surveys – Completing periodic associate surveys should identify personnel and management issues early, and thereby correcting issues before they lead to costly or irreversible situations. Some management companies choose not to spend the time and effort to complete this valuable survey. By surveying your associates, you will learn things about your personnel that you may never otherwise find out. A few examples of issues that can come out in a survey include employee theft, sexual harassment, poor morale, and weak managers.

DEFICIENCY #5: NOT PAYING ATTENTION TO THE CUSTOMER

As most people know, having positive relations with your customer base is critical to the success of any organization. However, in the very dynamic hotel industry, typically customers are paid attention to, but not to the extent necessary to excel beyond the competition. The activities of every level of a successful hotel management organization will tie back to the customer and the experience they have at your property. Building on positive guest experiences will lead to your guests returning to your property again, telling their associates, and possibly writing about their positive experience on an online venue. Customer relationship excellence will lead to customer loyalty, new customers, higher paying customers, higher profits and ultimately more asset value.

Guest Satisfaction Surveys – Guest satisfaction surveys are completed on a regular basis by your hotel brand company and the results should be available for your review. Low scores will generally point to poor management or other issues and lead to declines in revenue and risk of losing your brand affiliation. These surveys can be extremely valuable and should be closely reviewed by both the management company and the onsite management staff. They will identify areas of weakness and therefore opportunities for improvement.

Happy, Friendly, and Helpful Staff - Staffing can make a huge difference in the customers attitudes towards your hotel and their experience. The importance of having a positive and helpful staff cannot be over-stressed. Positive and helpful personnel can turn a very bad situation or experience, such as a noisy neighbor, into a winning outcome, provided the staff addresses the problem quickly, professionally and beyond the customer's satisfaction.

Online Reputation – In the connected world we now live in, having a positive online reputation is essential for the success of a hotel property. Management staff should be knowledgeable on all forms of online reviews and should monitor them closely to identify and address issues at their hotel. Further, when a management response is allowed, management should carefully craft the response and make sure that the issues identified are resolved.

Property Condition – Deferring maintenance can prove to be a death spiral for any property that not only can impact revenue, but eventually will lead to higher maintenance expenses. Bottom line, if a customer does not feel comfortable at a hotel due to lack of cleanliness or condition of property, they will not return.

This report on “5 FATAL MANAGEMENT COMPANY DEFICIENCIES THAT DESTROY CASH FLOW” was made available based on years of experience by the Executive Management Team of Vesta Hospitality, LLC. Questions - please contact Rick Takach, President and CEO of Vesta Hospitality, LLC or Rob Gartner, Vice President of Business Development. If you have a truly interesting hotel investment project and are interested in significantly improving the soundness of your buying and management decisions, let's discuss it and see how we can help you.

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