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The Heart of Successful Hotels: Going Beyond the Monopoly Game Strategy

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To investors, hotels are real estate. At the end of the day, why do investors put their money in hotels vs. other types of real estate? For the prospect of superior investment returns – the current operating cash flow and the reversionary value upon exit (sale) in excess of acquisition price. Among other factors, the underwriting of hotel investment considers a reasonable – or at times, aggressive – net operating income (or EBITDA), an appropriate capitalization (cap) rate applied to that net operating income to determine an asset’s valuation, and various equity and debt alternatives to determine an equity multiple and rate of return satisfactory to the investor.

It is like a real-life game of Monopoly. Do you want to build a hotel on Connecticut Avenue, or buy one on Park Place?

But what is sometimes overlooked is the game of “Operation” that supports the game of “Monopoly” in hotels, e.g. the physical appearance and condition of the property (the “bones”), the operational systems, the people, the expertise, the round-the-clock attention to details, and the personal service. After all, it is this combination that generates the NOI that factors so heavily into a hotel real estate investment.

Perhaps one might call it the “softer side” of the hard numbers, but operations are by no means “soft”. Unlike other commercial real estate, hotels are 24-hours-a-day, 365-days-a-year living, breathing operations that require an exceptionally experienced, highly skilled, and effective management team to be successful in the games of both Operation and Monopoly.

When it comes to hotel operations, the approach can often be categorized in two ways: one that drives *long-term value*, and one that drives *short-term – and as a result, unsustainable – value*. Using an analogy from the game of Operation, this short-term approach could be like removing organs in an effort to lose weight and as a result, dropping dead, compared to living an active, healthy lifestyle daily to achieve optimal wellbeing (long-term). There are certainly operators that take a short-term approach to try to build investment value and, for example, could drive a short-term profit result by eliminating staff and services, but also compromising a quality guest experience as a result. Our focus herein is on driving *long-term value* in hotel investment.

The widely-discussed “3 Ps” of business success are: People, Product, and Profit. Use your People and Product to increase revenues and decrease expenses and to create an increase in Profits. Correct? Well, true. But it is not so simple.

One of our best-practice approaches to effective hotel operations is to make significant *investments* to drive **quality, engagement, satisfaction, and loyalty** – of our guests, of our associates, of our investment partners. Here are a few specific examples of the types of *investments* that pay off in the game of Operation, and also, ultimately, in the game of Monopoly.

Invest in attracting People with high personal standards. As part of focusing on quality throughout an organization, bringing together a team of passionate hospitality professionals with high personal standards is a recipe for ultimate success. High standards among individuals results in high standards within a team, and is demonstrated with exceptional service, positive guest reviews, achievement of awards, which all translate to higher revenues.

In the *hotel business* (operations), the differentiation is *service* and the *product* is people. The *business of hotels* (investment) cannot exist without this combination as a foundation.

Invest in your People. As former Apple CEO Steve Jobs famously said, “It doesn’t make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do”. After smart, high-caliber professionals and associates have been hired, the *investment* remains a continuous process. For example, it is of critical importance to take great care of associates, who will then take great care of our guests, as their overall high job satisfaction leads to improved performance. An industry colleague once said, “You sweep with your heart”. Hospitality comes from the inside-out. It is not about the task you do, it is how you do that task. By being personally invested, one reaps intrinsic value in addition to economic value from their work.

Frequent and consistent training is another critical aspect of investing in associates. People cannot be expected to do a job well if they do not have the proper tools and training to complete their job to a standard that has been clearly outlined. Training from the corporate

and property levels, especially to staff who interact most frequently with guests, is an important factor in ensuring the operational success of a hotel.

There is also the investment in associates' wellbeing. For example, turning associate dining rooms into "Family Rooms" to create a warm, welcoming and beautiful space offering healthy food and helpful resources for associates where they can refuel, rest, reconnect, reenergize, and ready themselves to continue to create the best possible experiences for guests.

Invest time to ensure understanding. Long-term relationships and resulting loyalty require a clear understanding of what is expected of and by each party. From our People to our guests in our hotels each and every day to our investment partners, taking the time to understand the unique goals and desired experience of each is critical to meeting – and exceeding – expectations.

Invest in team collaboration. A hotel management company and its on-property leadership is comprised of a team of subject matter experts and their internal (and sometimes, external) resources – from sales to revenue management to food and beverage to recreation to accounting to information technology to engineering to strategic operational oversight to project management. By harnessing these valuable resources and working in teams – where egos are checked at the door and the result of the whole is greater than the sum of its parts – communication is enhanced, more creative solutions are reached, implementation is more expertly executed, and desired results are achieved in a smoother process.

Invest in quality, with a focus on value. It is not about seeking the least expensive solution to value-engineer expenses – the cheapest lightbulb, the lowest-price food ingredients, the lowest-cost service provider – it is about value. In company-wide procurement from FF&E, to operating supplies, to amenities, to ingredients, we find that *investing* in quality for effectiveness and lasting performance generates the greatest return on investment.

Invest in the physical Product. As investors in addition to operators, we think like owners. From a meticulously planned and executed renovation to the care taken in everyday maintenance and cleanliness, taking pride in showcasing a quality property is the foundation of operational excellence. Exceptional service can overcome some physical shortcomings in a property for an unsustainable period of time, but then excellence is always an uphill battle. Investing and reinvesting to ensure the physical product is in sync with the service experience, and vice versa, is another driver of long-term success and value.

Invest time in the details. The difference between ordinary and extraordinary lies in that something extra: the details. Whether it is the extra personal hospitality extended to a guest based on truly understanding their needs and delivering the service accordingly, or paying careful attention to the details in a contract for supplies to service the hotel and its guests, or any number of other examples, attending to the details is a set up for success.

Invest in measurement, as you can only manage what you can measure. Investing in systems and processes that measure the effectiveness of your actions results in a “win”. Whatever the result of a measurement , it either reports that the system or process is producing the desired result, or provides feedback for improvement.

As labor is the greatest expense in a hotel, our investment in evaluating and adjusting human processes, systems and associate behaviors to establish the greatest efficiencies has been highly valuable, resulting in sustainable improvements in profitability within our hotels and departments. Coupling these measurable efficiencies with a teamwork approach to evaluating suggested process improvements leads to even better performance and operating results.

Investing in attracting and developing people, understanding, teamwork, quality, value, details, measurement, and the hotel’s physical asset pays off in associate satisfaction scores, guest satisfaction scores, property reviews, and perception, which together drive occupancy, revenues, and ultimately, profitability and asset value.

“When the tide goes out, you see who is swimming naked”. Thank you to Warren Buffett for this great quote. By focusing on sustainable long-term success by way of exceptional operations, hotels are best able to ride the wave of the industry’s cycle – economic fluctuations, supply and demand balances and imbalances, growth and retrenchment, and changing consumer expectations – and drive asset value in the process.

By winning at the game of Operation, owners and investors can also win at the game of Monopoly.

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