



## Hospitality Management: Perspectives from Industry Advisors

Rachel Roginsky and Matthew Arrants

**I**n prior quarterly reports, Pinnacle Advisory Group presented timely updates about the New England lodging industry, which included focused profiles on particular cities. In this issue, the firm offers more general insight about the hospitality industry. Several Pinnacle executives recently participated in a panel discussion about investment, management, and careers in the hospitality industry. The results appear below.

### **What issues most affect hotel investment and valuation at the property level?**

*Jonathan Jaeger*

Within our daily practice, we focus attention on the hotel investment community and what prospective investors are considering when acquiring hotel assets. Two of the most important issues frequently discussed are hotel management and franchise affiliation (flags).

Not all hotel management companies are created equal. We have been involved with several projects involving a turnaround/repositioning where new management was able to drastically increase the profitability of a hotel. Since profitability (or net operating income) directly leads to hotel value, the ability of a management company to drive top line revenues in addition to operating efficiently on the cost side is enormously significant. Depending on the hotel type/chain scale, management must have the tools necessary to drive profitability for the hotel owner. When hotel properties are listed for sale, investors often find unencumbered assets to be more desirable.

While management does not always have the ability to select and/or change a franchise affiliation, this is another integral component affecting hotel valuation. Each brand targets specific customers and offers rewards/benefits to frequent travelers. When investors are considering purchasing a hotel property, one of the first questions is often regard-

ing the brand. Is there an opportunity to renovate and reposition? Is there an opportunity to convert to a new franchise affiliation? The type of brand in each particular location can dramatically affect the overall value of a hotel property. It is important to select the right brand for each location.

*Rachel Roginsky*

Hotel values and investment are typically driven by a hotel's potential income. A hotel's estimate of value and investment are further determined, and potentially reduced, by current and/or anticipated capital needs. While property-level managers and owners cannot control the macroeconomics of a particular market, they can certainly impact day-to-day activities, which can ultimately improve a hotel's amount of income, and they can preserve the physical condition of the asset thereby reducing capital needs. By doing this, the property-level owner and manager are helping to boost the value of the hotel and make it a more attractive investment.

A hotel's income is driven by top-line revenues and reduced by operating expenses. Competent and effective property-level managers and owners should continuously monitor and address both supply and demand factors within the competitive market. The on-site team should strive to obtain the greatest fair share of demand, and the highest room rates possible, allowing the property to surpass competitors in its REVPAR penetration. Controlling expenses at an optimal level, combined with high gross income, will ultimately provide the hotel higher net income levels and elevated value.

Property-level management and owners also need to be aware of all deferred maintenance. They should continue to upgrade the property to the required standards of the brand, and ensure that the property's physical condition exceeds the condition of its competitors. When a potential investor is deciding how much a hotel is worth, a lesser amount of capital requirements for the physical aspect of the hotel will only serve to increase the value of the hotel asset.

### **What strategies should hotel owners or managers follow in times of financial uncertainty?**

*Natalie Francoeur*

There has been a fair amount of volatility in the economy over the last decade. One only has to

look at the soaring hotel rates and values in 2006 and 2007, and then to the fallout experienced in the industry from 2008 to 2010 following the national economic recession, to have an understanding of how economic instability can significantly impact hotel operations. During tough or uncertain economic times, weakening demand, price sensitivity, and shrinking budgets (both for the customer as well as the hotel operator) can have tremendous detrimental effects on a hotel's bottom line. To help get through these periods of economic turmoil, hotel operators can focus on two main areas: revenue management and customer service (guest satisfaction). These areas should always be in focus, but they can be particularly helpful in weathering the tougher times.

Revenue management is crucial during economic uncertainty. Understanding how to best utilize the multitude of distribution channels can prove to be the difference between maintaining rate integrity and having average rates fall off a cliff. Significant rate declines that occur as a result of recession often take multiple years to recover. It has not been proven that lower rates lead to more business, but lower rates certainly lead to lower profitability. Equally, if not more important, is a focus on customer service and guest satisfaction. During tough economic times, there is a tendency to eliminate amenities and ancillary services. To some extent, this may be necessary to achieve acceptable levels of profitability. However, ensuring that hotel associates are visible and truly are customer-centric can have a huge impact on the overall satisfaction level, and intent to return, for guests.

*Sebastian Colella*

During an economic downturn, such as the recent times experienced due to the housing crisis and the years that followed the terrorist attacks of 2001, market demand is negatively impacted as travel across all segments decreases. Subsequently, market rate declines as individual properties compete for what little demand is available. Eventually occupancy will begin to rebound, but it is much more difficult for markets to drive rates to previous levels. For this reason, maintaining rate integrity during financial uncertainty is important to long-term profitability.

One of a hotel's largest expenses is labor. As demand levels decrease, management must strategically budget (reduce) labor costs, while being careful not to sacrifice the product/service and ul-

## ABOUT THE PANEL

Several executives of the Pinnacle Advisory Group recently participated in a virtual panel discussion about the hospitality industry, with questions selected jointly by the authors of this article and the editors of the *Boston Hospitality Review*. The panel members included **Matthew Arrants** (Executive Vice President, Boston), **Sebastian Colella** (Senior Consultant, Boston), **Natalie Francoeur** (Senior Vice President, Boston), **Allison Fogarty** (Director, Tampa), **Jonathan Jaeger** (Vice President, New York City), **Sandy Lien** (Vice President, Newport Beach), **Rachel Roginsky** (Principal, Boston), and **Rosemary Rowen** (Consultant, Boston).

timately the hotel's reputation. Staffing needs are directly influenced by demand levels. When occupancy drops, so should labor.

Lastly, management will be held accountable for the strategies put in place to mitigate declining profitability. For this reason, communication between management and ownership plays an important role in avoiding any surprises as market demand declines and a hotel's performance seems to dip.

*Sandy Lien*

Financial uncertainty is a given in the nature of the real estate cycle. To protect yourself and your asset during a downturn, it is often best to strive for operating efficiencies throughout the entire cycle, both good and bad. Avoid over-hiring and over-spending. Most of all, avoid over-leveraging the asset and making it more susceptible to risk. Anticipate heavy capital spending at least every four to six years, especially if the asset is licensed with a major brand. Reserve requirements are typically underwritten in the 4 percent of total revenues range, but from an owner's perspective it may be more beneficial to establish a reserve 1 to 2 percentage points higher than the underwriting standard (especially for a full-service, branded property). Also, avoid 'giving away' rates too much during a downturn for the sake of filling up rooms. This will make it harder to re-establish the property's former rate position following a down-cycle period.

### What advice would you give to recent graduates of hospitality schools?

*Allison Fogarty*

It's exciting to have achieved a degree. It's a sign that you have really persevered and completed something. But to make your first years in the in-

dustry as productive and successful as they can be, I would offer the following advice.

In the hospitality industry, we all rely on each other. The most expensive facilities in the world do not achieve five-star status without kitchen porters and room attendants who care about their work and take pride in it. Acknowledge and appreciate the contributions of others, particularly the unsung hourly workers who make our hotels great. And along the way, you can learn a lot from those hourly workers, including how to make the hotels you eventually manage more efficient and profitable.

It is very tempting to point out the deficiencies we see in others. "This person messed up this" or "that's not how this should be done." The advice: Don't. When you complain or gossip about others, the walls have ears and it inevitably gets back to the person you are talking about. One management trainee at my hotel complained about a restaurant manager to the food & beverage director. When he completed his training program, he became an assistant manager in that very restaurant. He got the worst possible shifts. Every time. Coincidence?

In interviews, focus on the positive. Telling an interviewer about all the negative things that a prior employer has done will not make you seem more knowledgeable or a pleasant person to be around. Rather, the interviewer will start to wonder if you are a troublemaker.

Nobody knows everything. And if you don't know the answer to a question, don't be afraid to say: "I don't know. May I do some research and get back to you?" Then follow up. At this point in your career, you are not supposed to know it all. You just need to be willing to pitch in and find out.

Be curious. Ask questions. It's a great way to learn, and most people will be delighted to help. Most people love to be considered experts. Just remember, at this point in your career, you are most expert at being a student of hospitality management, not being a hospitality manager. Be humble. You'll get farther faster, and people will like you better for it.

*Matthew Arrants*

When asked for career advice, I encourage students to focus on learning the industry and building strong relationships. They should not focus on the money. That will come with experience. Besides, as my mother used to say: "You're supposed to be poor when you're young, it builds character."

The best way to learn the industry is to expose

yourself to as much of it as possible. Most of the leaders in our business started washing pots and pans, or cleaning rooms, or parking cars. They all worked their way up the ladder. Rarely is the ladder straight. The breadth and the depth of your experience are equally valuable.

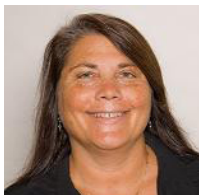
If you are entering the hospitality industry you are a 'people person' by definition. Building and maintaining relationships with your colleagues will serve you well in the future. In this industry, you are going to work hard and work with a lot of different people at a lot of different companies. Over time, you should be developing a strong network of friends that you can call on for advice and information that will provide you with future growth opportunities. Finally, whether you stay in the hospitality business or not, your range of experiences and depth of relationships will provide you with a rich life.

*Rosemary Rowen*

The hospitality industry offers a wide range of career options, and where your interests lie while you study in school may not be the only path worth exploring once you discover more of what is available in the field. Even if your major while in school was in one area, try to be open-minded when considering aspects of the industry that are outside of your focus. For instance, if you are looking to go

into operations and your concentration was in marketing throughout your coursework while in school, don't limit yourself to only looking for job opportunities in the sales and marketing department in a hotel. Often, to get your foot in the door with a company or property that you want to work for, you may need to look for options in other departments, such as rooms or food & beverage. Once you are working for a property and you work hard to prove yourself, others will see your successes, which can open doors for movement into other areas of the hotel. Continue to stay in close touch with senior managers in your hotel, so they know what your aspirations are. Always look for opportunities to show your skills which might be outside of your existing role. You may even discover that your passion lies in an area that you hadn't considered before being exposed to it.

Along the way, perhaps one of the most important things you can do for your career is to maintain and increase your connections. This starts with your classmates from school. Within a few years, your peers will hold positions in a variety of disciplines, and the connections that you made in school will be valuable as you progress in the industry. The industry as a whole is close-knit, so it is important to maintain friendships and remain in good graces with former colleagues as you change jobs. You never know where your paths may reconnect again sometime in the future. ■



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