

Asset Managers must look beyond 2008 Budget



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Crisis management plan for protecting profit
Building an effective relationship with the management company and the owner is essential to maximise the value of the hotel. The first step is to align the objectives of both parties and measure performance. Fortunately, both parties want the hotel to maximise the return on investment. However deciding whether revenue and expense levels are reasonable and achievable can be a difficult task as various factors affect a hotel's ability to generate revenue and manage expenses.

Asset managers should encourage operators to plan beyond the yearly budget and identify opportunities for generating incremental revenues. The following provides suggestions on how to create incremental revenue and how to protect cost, therefore enhancing long-term real estate value.

Profit Protection Plan

The lodging industry is often the first victim of terrorism, war and force of nature. Every market is vulnerable to crisis and every hotel needs to have a plan to protect its profit. During those unpredictable periods the revenue usually declines immediately and the operator needs to act right away to avoid significant losses. A profit protection plan will provide targeted actions to shield profit and goes far beyond the regular cost saving. Each action should be measurable and it should allow the operator taking prompt action to contain losses generated by the regular hotel operation.

Profit Protection Plan can include the following:

- Produce a budget re-forecast
- Reduce provision as revenue decreases
- Close some floors to save energy
- Close selected F&B outlets and reduce provisions
- Limit outsourcing and maximise use of hotel staff
- Reduction of number of employees
- Encourage multitask employees
- Reduce lower rated travel agents and tour operators

The better prepared the hotel, the better will it be able to respond and rebound. Once created, the profit protection plan can be updated every year. In case of actual crisis, the plan will be adapted and modified to fit the situation. As long as there is a plan in place, the management team can focus on generating incremental revenue.

Incremental Revenues

Now that the 2008 marketing plan is in place, every operating department should focus on generating incremental revenue, which will increase the flow-through of the hotel towards profit. The following provides a few suggestions on how to improve hotel revenue:

Rooms department

- Room service menus and spa menus outside guest directory generate more revenues
- Use the guestroom television as an advertising vehicle. The in-house video can cross-sell and promote your services, amenities, and food & beverage promotions
- Be innovative. Create a children activity menu, in-room promotion, e.g. Pizza night (1 pizza and the movie is free), improve the mini-bar with cards, sun cream, mosquito repellent
- Consider front-of-house cross-training, implementing incentive programs
- Review amenities packages and operating supplies to reduce costs
- For the travel agents and the tour operators, the hotel should provide sales tools such as promotional packages offers, e.g. spa, adventure, discovery, activities for kids, business and MICE

Food & Beverage department

- Evaluate pricing and menu mix at restaurant
- Different promotions every other week to keep the local residents, especially in mixed-use development (office and residential towers)
- Identify catering goals for the sales staff, brainstorm off-site catering opportunities



Editor's Note: In Alex Sogno's column which appeared on the October 2007 issue of H, it was published that Mr Sogno is VP for Asset Management at Kingdom Hotel Investments. He has since moved to become MD of Global Asset Solution.

- Restaurant's signage is often overlooked
- If you have a child-friendly resort, there are opportunities to improve the revenue in F&B outlets: kid menus, small games, table set to draw on
- Cross sale fliers on the table

Other departments

- Consider selling parking to non-guests
- Identify whether the fitness centre is good enough to solicit monthly memberships
- Study the possibility of leasing hotel space to a third-party retail tenant
- Ensure that there are defined revenue goals for each employee in the sales departments
- Review employee's salary versus revenue goals
- Consider replacing overtime hours with contracted labour
- Appoint employees in each department who specialize in identifying in-house revenue opportunities
- Several properties can combine orders to increase the volume of items and the discount
- Review all contracts of operation and maintenance, including elevator and trash removal, bid each contract out upon renewal

- Consider completing an energy audit to determine opportunities to decrease cost
- Consider insurance umbrella when you have more than one hotel asset

Asset Management

- If the hotel will be renovated during the year, consider renegotiating the contracted fees and terms of the management contract.
- Secure the owning company position by ensuring all contract terms are respected. The asset manager should create a management requirement checklist and if the management company doesn't respect a requirement (e.g. on time reporting, reforecast, presentation of the annual proposed budget), it should be notified in writing.

The first objective of asset management is to assist hotel owners or investors to realise the full value of their hotel assets through a continuous process of value creation and enhancement. The asset manager should encourage the operators to achieve this by optimizing operational, financial and capital efficiencies of the hotel with the ultimate goal of maximizing profits and investment returns for the owner and investor. H