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Nine Elements of Hotel Management Company Selection

Horwath HTL Atlanta, USA
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ASSET MANAGEMENT SERVICES: NINE ELEMENTS OF HOTEL MANAGEMENT COMPANY SELECTION

The alignment of goals between owners and operators has always been difficult, due to the different perspectives of both parties. Owners primarily care about increasing asset value and bottom line cash flow, while management tend to focus more on daily operations and top line revenue. To help align these efforts and achieve great results, it is important for owners to find professionals who have experience in operations and are able to add great value to the asset. In this case, the asset manager, owner's representative, plays a key role in management selections, contract negotiations, monitoring performance, strategic planning, and balancing the priorities of both owners and management.

Overall, the owner, asset manager, and management company must synergize their expertise when working towards the ultimate goal of the successful business.

The Importance of Management Company Selection

One of the more important responsibilities of an asset manager is to pick the right third-party management company. The five significant benefits of having a good operator are:

Human Resources

Talent is the top priority, and a management company has experience in acquiring and retaining the best talent. Its HR team will provide great training with growth opportunities to attract extraordinary hoteliers and to lower the turnover rate.

Sales & Marketing

Driving topline revenue is the most critical goal, and a management company can achieve a strong RevPAR through different distribution channels and marketing platforms. Its sales and marketing team will proactively analyze a hotel's sales potential and develop strategic marketing plans to create a better approach toward targeting different segments.

Customer Satisfaction

Guest experience is the core principle, and a management company will meet guest expectations utilizing time-tested operational processes. Its customer relations team and experienced staff will provide best-in-class customer service, which begins and ends with a safe and healthy environment to directly increase customer satisfaction.

Revenue Management

Yield management is the determinant method, and a management company will bring its strong revenue management system and proactive team to constantly improve the pricing strategy and inventory management, perform long-range forecasting and demand generation analysis, and leverage all of the other approaches to help drive market share and profitability.

Financials

Profit is the ultimate objective, and a management company, with up-to-date accounting platform systems and financial experts, will look closely at data to control expenses and increase cash flows. It is critical to have the right operator to flow the revenue to the net operating income.

Management Company Selection Criteria

Since selecting the right hotel operator and negotiating a fair hotel management agreement (HMA) determine the success of a hotel, owners today have higher expectations and stricter requirements during the selection process. The core aspects of the right management company are not necessarily previous experience, but a mix of interconnecting and collaborative factors:

- People
- Process
- Product
- Time
- Talent
- Touch
- Legal
- Logistics
- Love

People

An owner should first evaluate the people of the management company when making a selection. Since the owner, employees, guests, stakeholders, and community are critical to the success of the hotel, it is essential to find the right operator who possesses the personalities that fit well with the environment and culture. Most importantly, the core values of the management company should be

honesty, integrity, and personal commitment. People who will speak the truth and fulfill the promises will determine the success of the hotel from the beginning.

Process

Process of plans and strategies is the second key factor to evaluate when selecting the right management company. The process shows the functions, tools, and systems established and proven by the management company from its past experience. These processes, including revenue management, the marketing platform, human resources, and other functions, determine the efficiency and financial performance of the management.

Product

Product represents the hotel, and a quality product is an indication of meeting guests' expectations. With the right people and right process, the hotel will achieve its ultimate goal of performance, operationally and financially. The experience in the product is an important factor during the selection. The asset manager should have the knowledge and relationship to help the owner take a closer look at the past performance of the operator based on previous contracts with other firms and actual management results with other clients.

Time

Time of the operator selection impacts hotel performance in the long term. The hotel owner should understand the appropriate amount of time needed to select the management. To find the very best operator with a fair agreement, the owner should plan and execute the selection process carefully under the guidance of the asset manager. The right management company will dedicate the needed time to ensure the hotel is successful.

Talent

Even if the strength of the management company is proven, the owner should also care about the real talent coming into the hotel and the accessibility of the senior executive management.

For a new hotel, having an effective general manager and director of sales are significant to building the hotel's reputation and boosting the sales on a daily basis. The owner should fully understand the past experience and past management results these two hotel experts have had with other clients, as it will directly affect the future performance of the hotel.

The executive and corporate staff should be easily reachable and involved in the property on a regular basis. The management company is expected to have experts specializing in different areas and provide additional value on a higher level, such as revenue management, sales, F&B, cost control, and accounting. The asset manager's role is to keep the owner's perspective and priorities at the top of the list, stay connected, understand the direction of the corporate level, and make meaningful suggestions for future performance.

Touch

A management company must provide a personalized touch when working with the hotel, operations, and the owner.

Each hotel is unique and requires a distinctive company culture to match. The management company's location, size, service, and financial, operational, marketing, or legal strength and expertise are the competitive advantages needed to build a customized strategy for the hotel owner. The asset manager, as the owner's representative, should encourage communication between the brand, operator, and customers to better customize the strategies to align with the owner's objectives.

Legal

The intent of the legal document is to clearly capture the details of the agreement. A prudent hotel owner should understand the legal rights, obligations, and limitations outlined within a management agreement. It is essential to involve legal experts and asset managers to expedite the process with their experience and relationship in the industry; to better evaluate the management contract at the negotiation stage; and to benefit the hotel investor from maintaining its desirable control over the duration of the management term. Below are some key control elements that a hotel owner needs to understand and pay close attention to during the management agreement negotiation:

- Term and Termination Rights
- Hiring and Retention of Employees
- Financial Reporting
- Books and Records
- Fees and Expenses
- Procurement
- Budget Review and Approval Rights
- Dispute Resolution
- Miscellaneous Control Provisions

In regards to the fees and procurement control stated above, the debate over CapEX and operating expenses always affects the interests of both the owner and operator. Because of this, the owner should negotiate carefully in regards to the performance standard and proper incentives to provide a strategic measure of the management company's performance and to align the goals of both parties.

In order to select the best operator who can establish common goals with the owner, an asset manager should be involved in the procedure and should look for two elements before making a suggestion:

- The management agreement from both parties
- Financial Pro Forma, including P&L, Balance Sheet, Cash flow

Giving consideration to the documents above, which explain the expectation of the hotel's performance from the owner and management company's perspective, along with evaluating the projections from the feasibility study and brand, the owner will be able to more realistically understand a hotel's performance and can select the right operator with which to align.

Logistics

The management agreement is the most important document an owner should have to guide the relationship between the owner, asset manager, and operator. It measures the responsibilities, timelines, and expectations so each party can follow the guidelines and communicate in a timely manner. In regards to the logistics during the selection process, the asset manager will be able to handle the details and report to the owner.

Love

Every owner, asset manager, and management company has its own characteristics and culture. Although all parties have the fiduciary responsibility to ensure the success of the hotel, it is ultimately love (passion and commitment) that ties people together. Only if the ownership appreciates the value brought by the operator and asset manager, and the operator and asset manager respect the owner and are passionate about the tasks they are given, will all parties create a great synergy with each other and establish a successful hotel together.

Conclusion

Selecting the right management company, with the best talent, time-tested processes, personalized strategies, consistent time commitment, fair legal documents, and an established common goal with the owner, is one of the many essential responsibilities of the asset manager at the beginning of the asset life cycle. However, having the right operator on board is only the first step. There are many opportunities to improve the synergies between the owner, asset manager, and operator through day-to-day operations, during peaks and lows in hotel industry life cycle.

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Paul Breslin, Managing Director of the Atlanta office of Horwath HTL, is a 35-year veteran of the hospitality industry. His background within the industry is all encompassing, with extensive experience in hotel operations, development, and asset management with major branded hotels as well as independent and smaller luxury hotels. From asset management and operational support, to planning and development services, sales, marketing, revenue management, transactional advice, and financial restructuring, Mr. Breslin has provided consulting services to a global client base. Mr. Breslin is a member of the prestigious International Society of Hospitality Consultants and the Hotel Asset Managers Association. He is a Certified Hotel Administrator by the Educational Institute of the American Hotel and Lodging Association. He is a founding member and immediate past president of the Atlanta Hospitality Alliance, and currently serves on the Board of the Atlanta Hospitality Alliance and the Governmental Affairs Committee of the Georgia Hotel and Lodging Association.

Mr. Breslin is a Certified Hospitality Educator (CHE) and a well-respected teacher and leader within the industry. He is the Executive-in-Residence in Lodging in the J. Mack Robinson College of Business, Cecil B. Day School of Hospitality at Georgia State University. Through Sabanci University in Turkey, he has trained senior level executives at the Rixos Hotel Leadership Training Program. Mr. Breslin is a frequent lecturer at national conventions and hospitality industry conferences throughout the United States. Mr. Breslin has also been quoted on hospitality issues in publications such as The Wall Street Journal, USA Today, Atlanta Business Chronicle, Atlanta Journal-Constitution and The Miami Herald.

In addition to his work as a consultant and educator, Mr. Breslin provides hotel expert witness services to attorneys specializing in hospitality law. His caseload as an expert witness includes work with both plaintiffs and defendants.



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Julia Zhang is currently pursuing her bachelor's degree in Hotel and Restaurant Management at Cornell University, School of Hotel Administration, with a minor in Real Estate. She joined the Horwath HTL Internship Program in June 2016. Julia has extensive work experience in hotel operations and knowledge of hotel development, market research & analysis. Originally from China, Julia is proficient in both Mandarin Chinese and English. She started her career in hospitality as a front desk agent at The Peninsula Spring International Hotel in Jiangsu, China. After that, she worked in the Rooms Department at the Statler Hotel, which is known for its partnership with the Cornell Hotel School and its student leadership program. She gained further experience in the F&B Department of the Statler Hotel's, Taverna Banfi. Julia has developed her career in HR and Finance with work experience in restaurants and the food distribution industry. She assisted in managing a restaurant startup with three restaurants in New York City, including managing the POS systems, bookkeeping, budgeting, contacting vendors, scheduling employee hours, and launching two projects with the marketing team. She has also worked as a Finance Intern in the food distribution industry. Julia is Revinate certified, ServSafe Manager certified, and TIPS certified. In her Restaurant Management class at Cornell, as a kitchen manager, she broke the sales record of the student-run restaurant opened to the public during her management night. In addition, Julia is the Vice President of Cornell China Club, a member of Cornell Real Estate Club and a main dancer at Amber Dance Troupe.

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