Team player$

Asset managers are no longer the black hats. In fact, they could be the GM's best resource for expanding profitability in this uncertain market.

The challenges of delivering profitability in these tough times requires "two sets of hands," says Miguel Rivera, senior vice president, HVS Management & Advisory, and today, for once, that is putting asset managers and general managers on the same side of the table.

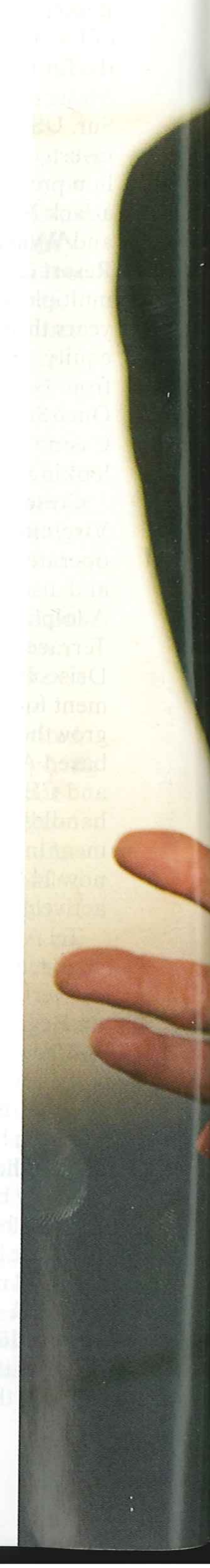
Asset managers aren't just wielding trimming shears these days. Instead, the struggle to survive the downturn means they are more often working in partnership with general managers to mine layers of business opportunities. "Good asset managers can provide general managers with benchmarking data to help manage labor and other costs. Good managers can provide asset managers with from-the-trenches information. You need both to develop new tactical and strategic moves," adds Rivera, who is based in San Francisco.

Not just about cuts

The asset manager's job description is still about the familiar balancing act of cost containment on one side and revenue generation on the other. But, nowadays, the primary function isn't just looking over the general manager's shoulder at the books. "The asset manager should be seen [not] as an adversary who is only there to check up on everyone, but instead as someone who is there to offer help and guidance from an industry perspective as well as a financial one," says Christine Witter, London-based senior vice president, Jones Lang LaSalle Hotels, Europe. Recession has also added pressure on the operator's performance.

Few areas of hotel operation reflect this team approach more than labor decisions. While the mantra of some asset managers used to be tantamount to a mandate to cut labor hours, the message has evolved into new ideas aimed at re-engineering staffing models. These platforms leverage the general manager's day-to-day labor management expertise alongside the best-practices overview of the asset manager.

"We break down staffing



"Good asset managers can provide general managers with benchmarking data to help manage labor and other costs. **Good managers can provide asset managers with from-the-trenches information.** You need both to develop new tactical and strategic moves."

—Miguel Rivera, HVS Management & Advisory

productivity by guestroom, by food and beverage (F&B) outlet, by meal period and venue. That's something hotels don't have the resources to do," says Chad Crandell, president, Capital Hospitality Management, Beverly, Massachusetts.

Laurence Geller, president, Strategic Hotels & Resorts Corp., Chicago, believes labor management is the key to both profitability and productivity. So, just lopping off a given number of line jobs or junior executive positions may make the numbers work short term, but the resulting impact on guest satisfaction won't do much for the bottom line over the long term. "Asset managers used to start cutting at the hourly level, leaving too much fat—too many suits at the senior management level—and not enough staff in positions that directly influence guest satisfaction," he says.

Geller and his team used an industrial staffing model to cut 20% of staff hours, while prioritizing the positions that impacted guest experience. He estimates that 30% of those hours won't be coming back, even post-recovery. "Are the front desk managers out of their offices and actually running the shift? They are now," says Geller.

According to Geller, effective asset management is 50% labor, 40% guerilla marketing and consumer research, and 10% everything else. Witter agrees, noting that asset managers need to follow through.

Getting more from F&B

F&B has historically been a cost containment concern, as well as an area ripe for revenue improvement. As Richard Warnick, president, Warnick+Co., Phoenix, notes, the key to successful F&B venues in this economy is creating a product engineered to guests' tastes. But, cautions Geller, restaurants need to start not with fancy names but with food, purchasing and labor cost management. Strategic Hotels & Resorts worked with Michael Mina, owner of restaurant management company Mina Group, San Francisco, and designer David Rockwell, Rockwell Group, New York City, on the restaurant at the Four Seasons Washington, D.C., from that basic concept and saw revenues triple.

When Crandell looked at the dining

OWNER'S CHECKLIST

General managers aren't the only ones whose performance comes under scrutiny. Owner/investors are expecting more out of asset managers than ever before. As one industry veteran notes, breadth of experience is crucial. Here's what some owners look for:

▷**Ability to leverage prior experience.** Piers Talalla, owner, Avington Financial, says asset managers need to be experts in the areas a project needs most, from new F&B concepts to repositions.

▷**Industry-wide expertise.** Third party asset managers can bring a uniquely detached perspective, notes Ross Beardsell, senior vice president advisory, Jones Lang LaSalle Hotels, Asia Pacific, Sydney.

▷**Consultative skills.** The teamwork approach requires that asset managers bring not only a sharp eye for anything that may be wrong at a property, but be able to bring constructive strategies.

options at the Westin Diplomat Hollywood, Florida, he saw that the impact of the recession on group travel left too many empty tables, so he and his team consolidated two restaurants into one and converted the other into a banquet/catering venue.

Crandell adds that consolidating offerings by meal period is another vital aspect of a successful F&B model.

Warnick believes that asset managers' last vital area of attention in F&B is keeping cost consciousness beyond the plate. That means a closer look at maximizing the marketing investment by getting the most out of advertising dollars and getting the right message to the right audience.

Working with general managers has never been more vital for creating successful ancillary business. Warnick also points out that general managers have gained a better understanding than ever before about how to use ancillary business to drive revenue and distinguish the property.

"While investors/owners have been focused on cash flow, they have also worked with asset managers through this crisis to make sure all decisions do not undermine the longer-term value potential of the underlying asset," says Robert Stiles, executive vice president and principal, head of western region, Cushman Wakefield.

Warnick adds, "Lenders are hiring asset managers preemptively as "advisors" in anticipation of taking a property back to allow them to hit the ground running if they do gain possession."

Long road to recovery

But, it is not enough just to reduce expenses; it is also about building revenues—and that starts with rate. Rate management is now so fast paced that Warnick compares it to the New York Stock Exchange with no regulator. "Room revenue is the biggest challenge," Warnick says. "It is a sad truth in the hotel business that you are at the mercy of your dumbest competitor. History tells us that rate is harder to regain than occupancy. This is particularly evident in group oriented hotels where forward rate commitments stretch into 2012 at depressed rate levels. We are also in a battle for market share with online travel agents (OTAs).

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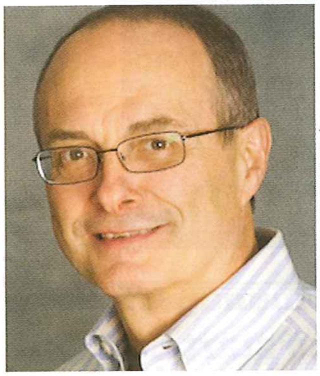
—Laurence Geller, Strategic Hotels & Resorts

GM'S CHECKLIST

Most general managers will be working more closely with asset managers to get through the recession and optimize recovery. Here's what to expect:

▷**An extra pair of eyes on the bottom line.** "A detailed focus on operations management, including identifying and eliminating loss making activities or lines of business; focusing on costs below the GOP line (property taxes, insurance, overheads, etc.); and avoiding leakage of cash through lack of compliance (e.g. VAT, tax, local laws, leases, planning, audit, etc.) can have a profound impact on the bottom line. Additionally, an effective asset manager must ensure meaningful planning and forecasting regimes exist and then manage and measure against them and the market," says Piers Talalla, owner, Avington Financial.

▷**Recession awareness.** Chad Crandell, president, Capital Hospitality Management, notes that a good asset manager has to be empathetic to the economic impact on the property. "If there's an issue with the physical property, I can't blame the general manager when the money's not there," he says.



"Interestingly, in an era of declining service and quality standards, **we believe you can actually differentiate with unrelenting attention to the basics.** This is absolutely differentiating from the mid-tier down. But it is also increasingly effective at the upper end since the cost-cutting focus of many hotels has led to product lapses."

—Richard Warnick, Warnick + Co.

And of course, at the upper end of the market, the industry is still fighting the politically incorrect luxury stigma—especially, with groups. "

Transient rates are easier to move as demand returns, adds Warnick. "We have some amount of compression—but the consumer is already asking the question: What is worth more today than I was getting yesterday," he says. "Another area of concern is the general guest spend. Food and beverage, spa, retail and recreation revenues are down because of fundamental changes in our customer mix and consumer spending generally. We are also witnessing a decrease in ancillary spend by groups, unwilling to pay for coffee breaks, upgraded meal choices and technology."

Although asset managers like Warnick's and Geller's companies execute tactically, they are also looking at the big picture—from branding to design. "In terms of strategy, product differentiation is key," says Warnick. "Otherwise, the guy with the lowest price wins the business and that is losing proposition for everyone but the consumer. You cannot discount your way to prosperity. Interestingly, in an era of declining service and quality standards, we believe you can actually differentiate with unrelenting attention to the basics. This is absolutely differentiating from the mid-tier down. But it is also increasingly effective at the upper end since the cost-cutting focus of many hotels has led to product lapses."

Asset managers also need to focus on what operators are doing with respect to business mix, distribution channels, and discounting policy/practice. And they need to make sure the management team is providing creative offerings with a perceived value to consumers.

Mark Brannigan, Singapore-based senior vice president, asset management, Jones Lang LaSalle Hotels, Asia Pacific, adds, "The asset managers' role needs to be as a gatekeeper for the hotel, utilizing distribution channels to attract the guests who drive overall revenue."

If bookings through a channel means, for instance, that a US$200 per night rate costs US$60 in commissions and other charges, Warnick asks if that is the right business to be chasing.

With OTAs charging in the neighborhood of 25% of room fees, shifting booking channels even while maintaining the same occupancy and average daily rate can have a huge impact on profitability, says Rivera.

Recession has changed the game for the entire hotel industry, but both general managers and asset managers can thank the downturn for putting their skills in the spotlight. Warnick and Witter agree that collaboration between the two is the only road through the recession and beyond. "If it doesn't get done cooperatively, it doesn't get done at all," says Warnick.

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—Chad Crandell, Capital Hospitality Management

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