

UNLOCKING YOUR HOTEL'S STRATEGIC ADVANTAGE

A Masterclass

A collection of articles written by Ian Graham over the years, all inspired by client assignments and previously published as Hotel Matters articles



Pushing the boundaries

Hotel Solutions Partnership is 10 years old in September 2013. Being part of it, I sometimes forget that when it launched, the idea of a virtual networked business completely challenged the status quo. Perhaps this is no longer the case. There are others who operate successful traditional brick-and-mortar consultancies. But what we have proven over the years is that our clients value the benefits of our knowledge and experience, along with the innovative working structure that we brought to market.

And we continue to push the boundaries of our approach. We embrace innovation and change. For example, we used Crowdsourcing as a new tool that has increasing relevance in our online world. We are using social media for campaigning. And we designed and delivered an innovative evidence-based approach to feasibility studies leveraging an analysis of highly relevant demographic data.

What follows is a number of articles that I have written and published in our newsletter Hotel Matters. Here we have brought them together in a single book to celebrate 10 years of trading for Hotel Solutions Partnership.

My thanks to my wife (and personal coach) Rosemary and to all our clients and fellow team members for their inspiration, support and challenge – they have the best 10 working years of my career – so far!

Please enjoy and I hope you will be challenged by these thoughts; share them with your team young and old.



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September 2013

Starters:

Brand Management

Enabling customers to design their experiences	4
Wake up to reality	5
Building brand loyalty	6
Evolution not revolution	7

Mains:

Operational Management

Just how important is the brand?	10
Everything begins with the guest	12
1250 generations of storytellers	14
Japanese lessons	16
Ostrich attitudes	18
The end of budgeting?	20
Leading the business – getting back to basics	22
Revisiting revenue management	24
Survival – lessons from the bushmen	26
Accidents happen – but you shouldn't lose existing customers	29
White swans	32
Plan B	33
Great hotel experiences	34
The most important numbers in hospitality	36
The price is wrong	37
The F word	38
Night passages	39

Desserts:

Asset Management

Closing a hotel	42
Risk management	44
The moral compass	45
Choosing an operator	47
Selling a management contract	50
Unleashing innovation	53

And finally:

Now under “older” management	56
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Starters:

Brand
Management

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Enabling customers to design their experiences

Are there some common themes emerging from our work that hotel owners and operators and their brands need to be alert to?

We think so. There has been much talk over the past few years about the separation of ownership from operation and now most of the majors (Wyndham, Intercontinental, Hilton, and IHG) have completed their metamorphoses. Lenders and investors alike believe the new industry structure is likely to result in more focused management, better run businesses, higher profits, and higher asset values. In our view, these desired outcomes will only arise if the new hotel industry addresses the inputs. The reshaped 21st century hotel industry must remember that its roots are in hospitality.

Only if guests and clients are welcomed, cherished and encouraged to return by hotel management and staff alike will the newly-focused brands and newly-liberated operators deliver the value that is being promised. Customers are no longer satisfied with a simple product or service. Increasingly they are buying an experience – and it's an experience they are designing themselves.

Hotel brands need to recognise what retailers have begun to discover – that the mass market is gone and customers want to be treated as individuals with their own specific requirements.



They need to find a way of enabling the guest-contact staff to sell the various elements of the offer to every guest at a minimum brand standard. In our experience, today's guest-contact staff are often not provided with appropriate products and services to sell, nor are they well trained in giving sales messages or provided with the right selling tools.

Important customers of hotel management contracts and hotel franchise agreements increasingly want to design their own relationship with the business partner – not just the fee structure – but which services the business partner provides.

Hotel brands, operators, and managers need to address the processes that deliver the owner, guest and franchisee experience in the context of these paradigm changes.

Wake up to reality

We had arranged to conduct some focus groups for one client to understand better the guest expectation. Based on prior experience, we had recommended BDRC, whose team helped us, along with our client, in the design and delivery of the research.

Have you actively tried to get under the skin of your customers recently – or ever? It's fascinating to sit like a fly on the wall as the skilled interviewer gets a group of frequent hotel users to discuss their experiences. It would be inappropriate to share with you much more – but it might surprise you that the customer does not see the hotel experience as the hotelier does!

From my own experience as a mystery guest, there are some aspects that the hoteliers prize that are almost unimportant to the guest; while there are aspects that the guest finds central to their experience that we, the hoteliers, do not hold sufficiently central in our thinking.



Building brand loyalty



A couple of clients have asked me separately to help them conduct structured competitor shopping. As a result, I've tested the customer journey and looked for brand touch-points in several 5-star branded hotels in East Asia and several branded and unbranded 2-star hotels in South Asia.

When undertaking the testing, I reminded myself that it is very useful to go back to being a guest rather than an hotelier. Have you tried it recently?

My stays reminded me of some very important points.

Space is important. I refer to my personal space – the time and space for me. And that's closely connected with privacy. In my hotel room I am in my nest, and when I am in my nest, most of the time I want to be by myself.

And by the way, if the hotelier takes shortcuts, I quickly notice them. I start counting and when I get to a certain number, I lose respect. It's the pillow stuffed full of cheap filling, the over-laundered and hard towels, the small slice of soap, the repair that hasn't been done, the inadequate broadband, the under-managed-because-it-is-outsourced-housekeeping. Yes, I notice and I hold it against the hotel.

And yet when someone goes the extra mile, I notice this just as much or more and it contributes to brand loyalty. One brand had put a Nespresso machine in my hotel room; a great alternative to the usual kettles and instant coffee and a real wow factor for a caffeine addict.

But I was also 'wow-ed' when having breakfast in an unbranded 2-star hotel in India when a service agent came to every table to see if guests had had a good night's sleep. That's what it's about surely – hospitality in the hospitality industry and a one-on-one relationship between the guest and service delivery team.

I stayed in a 'grand brand' room that quite frankly was less than grand in square metres, but because the owner had compensated with an investment in outstanding interior design (presumably encouraged by the operator) I would not hesitate to go back and stay there if I were in town on my own account despite the small room size.

Evolution not revolution

A well run hotel business must invest in innovation throughout the economic cycle – and investments of this nature will contribute to the evolution of the hotel industry and the brands that make it up.

Like me, you may have been surprised to read that as the world slides into recession, the Hilton family of brands has expanded. It now includes *Home2Suites*, an entrant in the extended-stay market.

The launch of *Home2Suites* at a time like this, may seem a risky move. When you own and control one of the world's great brands, why expose the business to additional risk by launching into the relatively unknown during a recession?

Struggle for existence

Clearly a hotel brand is not part of the natural world, but perhaps it shares some of the characteristics of animals and plants. Since Darwin's birth 200 years ago, mankind's understanding of the natural world has changed almost beyond recognition. Most of us accept the idea of evolution by natural selection. The struggle for existence, often referred to as the survival of the fittest, is made up of four key assumptions:

1. *Organisms vary one from another, even within a species*
2. *New variations can arise from time to time*
3. *Some of these variations are passed on from parent to offspring*
4. *More individuals are born than can exist in the available space or can be sustained by the available resources*

Can we relate these assumptions to drivers of change in the hotel industry?

Well, there are different types of hotel (urban vs. resort, convention vs. boutique, five star vs. one star), which reflects Darwin's thesis that organisms, even within a species, vary one from another. The recent introduction of the limited service hotel, the extended stay hotel and now the 'lifestyle' hotel, all suggest that new variations do arise.

We know that some elements of limited service, extended stay, or 'lifestyle' will be reflected back into the mainstream so that the variations these segments utilise are taken forward.



Some hotel brands have been around for decades; the successful evolvers include Hilton, Holiday Inn and Sheraton. Yet others have only come into existence in the last decade. These include Aloft, Cambria, Hyatt Place and now Home2Suites. Will they too last for half a century or more? They will if they learn how to evolve.

Brands are also occasionally withdrawn from the market. In recent years, these have included Amerisuites, Folio Hotels and Holiday Inn Garden Court. These withdrawals reflect the fact that some brands can no longer be sustained – usually due to evolving customer and/or investor needs.

Changing needs

Looking back is helpful, but it doesn't help us anticipate the future or implement business processes to ensure the long-term survival of our hotel brand. To understand this, let's remember that business economics and psychology are merging. The concept of 'rational' consumer behaviour is being rejected with a move to understanding how customers/guests actually behave. Deep evolutionary influences mean we are more reluctant to act as 'rational' consumers than the classical economist would assume. For example:

- Over the years, *the herd mentality* has been generally shown to be useful. It will be relatively safe for me to take the family on holiday to Costa del Sol because my neighbour has been there with his family and they not only survived, but enjoyed the experience. Copying what other hotels do successfully means our hotel is also more successful. Copying how successful retailers like IKEA sell, can help hotels be more successful in selling. Avoiding major price differentials with our competitors ensures that we and our competitors trade successfully. There are, of course, limitations and sometimes the 'master stroke' is to make a truly independent assessment of the market rather than follow-the-leader.
- It's now widely accepted that the '*endowment effect*' means we (as well as at least three other primates) value objects we own more highly than similar objects we have never owned. Hoteliers will do well to remember that their target guests will almost always prefer to stay at home than in a hotel or at friends.

How often has head office complained that a hotel general manager has become too proprietorial and can't see the competitive threats because he is basking in his own achievements? How often have we seen hotel owners valuing their hotel at a multiple of X times EBITDA but turning a blind eye to the fact the one down the road was sold at a multiple of less than X?

The evolutionary path

You can help your hotel business develop further by understanding the path it has taken in its evolution and by recognising the mechanisms and rules for its future success.

Mains:

Operational
Management

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Just how important is the brand?



Received wisdom in this industry seems to be that having a global, regional or nationally recognised brand is a “jolly good thing”. Indeed those bankers that brought the world to its knees in 2008 and beyond generally believe that such a thing is a precursor to taking a loan application through a Credit Committee.

As the beneficiary of on-the-job learning at Sheraton and Holiday Inn, I am perhaps an unlikely person to challenge such received wisdom regarding brand value. But in this article I wish to remind readers of the importance of the hotel operator – sometimes working with a brand, but sometimes working without a brand. A recent piece of analysis for a client served to demonstrate this point.

I have disguised the real participants in the following analysis. Imagine a European country, (let's say it's the United Kingdom but it could be any), in which several domestic mid-market brands compete against some global players, as well as other unbranded hotels. One of the global brands is beginning to enter the market and like its established competitor, is using franchising as the business model for growth.

For the purposes of this discussion, Brand 1 is well established in the country and is part of a global family of brands and Brand 2 is the entrant. I don't know which hotel is operated by which operator (and neither does the guest of course) but it's reasonable to assume that there will be different operators in most of these cities. Each is leveraging branded channels as well as directing a local sales and marketing effort at local corporate and leisure buyers.

This is what I got when I looked up BAR (best available rates) for the Brand 1 and 2 hotels for a Tuesday in the near future and a Saturday in the middle distance:

Entrant brand 2 compared to established brand 1

Price look-up on 24 August 2011 for: One night stay on 6 Sept (Tuesday), One night stay on 5 Nov (Saturday), Best Available Rate

	6 September			5 November		
	Brand 2	Brand 1	% Difference	Brand 2	Brand 1	% Difference
City 1 Airport	£69.00	£59.00	17%	£99.00	£69.00	43%
City 1 Centre	£69.00	£65.00	6%	N/A	N/A	N/A
City 2	£67.50	£86.99	-22%	£55.00	£67.00	-18%
City 3	£49.50	£86.99	-43%	£55.00	£60.99	-10%
City 4	£76.00	£75.00	1%	£63.00	£75.00	-16%
Town 1	£82.00	£59.00	39%	£59.00	£54.00	9%
Town 2	£74.00	£65.50	13%	£64.00	£65.00	-2%

What we see is that the operators of the entrant brand are in some cases pricing themselves above the competitor brand and sometimes below. Sometimes the gaps are large and sometimes they are small.

Through its pricing, there is no consistent message by the operators of the entrant brand that tells the market if it offers an experience that will be consistently above or below the established brand. The entrant brand's team of Franchise Service Delivery agents do not appear to be getting a consistent brand message across to their members. As a result the consumer is being presented with brand positioning that is at best muddled and at worst likely to be destructive (given the power of the established brand).

I don't think either the banks or the operators will be able to get Brand 1 or Brand 2 to suggest what proportion of business might be delivered through well-managed branded channels. But for the purpose of this discussion let's make a reasonable assumption that it should not be less than 25% and is unlikely to exceed 75%. This means that the local general manager and their team will always be looking for between 75% and 25% of the business.

The analysis above suggests that some operators are on the case, using branded channels along with price to maximise earnings. But it also clearly shows that some operators are not using price to maximise earnings but are succumbing to "local pressures" – even in branded channels – so it seems probable that they will adopt similar approaches to their local channels and segments.

Imagine the bottom line results in a hotel branded with Brand 1 and run by an operator that is using price to position themselves above Brand 2, and receiving 25% of business through these channels whilst using the same pricing philosophies on the other 75% of locally generated business.

Compare that with the profit for a hotel also bearing the Brand 1 sign, but run by an operator that is not leveraging price on the branded channels and also under-managing delivery through other channels. I suggest the difference in profitability will be huge.

No wonder I think it's the strategy of operator engagement that is at least as important to an owner as questions of branding.



Everything begins with the guest

We talk a lot about listening to customers but it doesn't stop us from thinking we know what they want.

When the hotel management team considers 'the guest' at each Monday morning meeting, there is a strong tendency to talk in stereotypes, e.g. 'FIT', 'Loyalty Programme Guest', and 'Road Warrior'. The trouble is that this type of discussion is diminishing and tends to result in a hotel delivering less than the customer needs.

As experts in their own lives, our guests will always know more about their needs than any stereotype can reflect. When an entrepreneur recognises this, a new hotel offer is successful in the market. Maybe that's what Yotel and EasyHotel are. Seeing the customer as more complex, interesting, sophisticated and willing to buy new and differentiated services is how innovation teams help hotel brands and operators successfully evolve their company's products and services.

Extras

It turns out that our customers and guests are willing to pay for things we did not expect.

For example, Travelodge in the UK is priced below Premier Inn. The guest has a choice of paying for the extra space and amenities that Premier Inn brings. Some guests do pay and others don't.

EasyJet has proven that some customers choose to pay to be at the head of a queue. Ryanair has proven that some customers will choose to pay to be checked in by a human being rather than at a kiosk.

Most airlines now recognise that many travellers will pay to check in baggage. Not everyone and not all the time, but a big enough segment of customers to make the offer a significant contributor to profits. EasyHotel even gives the guest the option of paying for use of the flat screen.

If the standard offer is clean sheets and towels every three days, some guests will pay extra for daily laundry. If the standard offer is any room, many guests from Western Europe will pay extra in the Middle East for a non-smoking room. Guests are used to paying extra to pay by credit card online, but when they come to check out at reception, most hotels don't yet differentiate between cash, debit, or credit cards. I don't know about you but I would pay quite a lot for *An Idiot's Guide to the Controls for the Shower* in my next hotel bedroom, or to be booked in a quiet room.

The creative souls that lead the 'fine dining' business have in recent years analysed and reassembled dishes, tastes and foods. People like Heston Blumenthal and Ferran Adrià have found new audiences for new taste experiences.

Listening really hard to what our customers are actually saying should be at the forefront of what we do. Perhaps the time has come for those in hotel sales and operations to take apart every guest experience and reassemble them in ways that allows the customer to pay for what they want, how they want it.

In a world of mandatory three-day packages, shouldn't there be an opportunity for the guest to personalise the experience by buying additional optional elements? In a world of limited disposable spend, shouldn't there be the opportunity for loyal guests to buy just those services that he or she really needs?



1,250 generations of storytellers

In 2011, I felt privileged to be asked to speak at the Douro International Conference on Tourism. The scope of the conference was *The key drivers of success for the destination* (the selling, communicating and internationalising of the destination, as well as the transport links to and within the region). You may not be aware that Northern Portugal contains not just one, but four UNESCO World Heritage Sites: Guimaraes and Porto old cities, the port wine growing area of the Douro and the prehistoric paintings at Foz Coa.

Tourism assets

There was much discussion of the region's tourism assets – places to visit, sights to be seen, and experiences to be enjoyed. The air and rail routes into and out of the destination were explored. The potential or actual gaps in particular parts of the tourism offer were also discussed, as was the role of the local community in the delivery of a high quality tourism experience. Local people of course are and should be the financial beneficiaries of tourism. The challenge of managing such an area and such a community in a way that is sustainable to the community, to the land and to the tourist was also discussed. We were fortunate to have in the room representatives from other destinations in Spain and the UK, enabling the delegates to learn from excellent benchmarks.

Actually I should use the word “debated” rather than “discussed” because this was a conference in which delegates joined with speakers in a vigorous exploration of the issues. As the day evolved it was evident that each of the owner/operators (hotels, trains, boats, vineyards, museum, etc.) were strongly energised to promote the destination and that some contribute to and leverage the umbrella tourism organisations that promote the region and country. There was at least one speaker who started to explore the role that social media can play in promoting a destination. With a congruent vision of the whole now evolving, the conference will go some way to enabling such a picture to be framed and for ownership, accountability and responsibility to be agreed and assigned.

One evening we were taken to see the prehistoric rock paintings and carvings and they were explained by one of the passionate curators – in the dark! This enabled us to see all the cuts and shapes of the carvings by the light of a torch, which cannot easily be seen in the ‘flat’ light of day. In the open air you can see carvings of animals drawn around 25,000 years ago by people just like us. And the oldest carvings are not a one-off – there are carvings and drawings from across the ages, including some dating from as late as the 20th century. It was a vivid portrayal of our species’ need to tell and hear stories.

It got me to thinking that this new thing “social media” is about story telling – reflecting simply the use of current technology to fulfil something that is embedded deep in the DNA of all us humans.

Memories

Later in the conference I suggested to the delegates – owners and operators of the tourism assets – that each of them has a role to play to encourage and enable the visitors to their regions, their asset, to take away pleasurable and meaningful memories. Significant memories stay with me when I have been emotionally touched by an experience. Some unique mix of the sight, the sound, the taste, the smell, the touch of an experience stays with me and is reinforced as I think about it and play it back in my mind. Sometimes I even embellish it like a fisherman does with his stories about his catches!

How can hotels and other tourist businesses encourage and foster such memories? For me it starts with the event or experience itself being designed and delivered by people who really care about their customers/visitors. This is what hotel management is all about – but let's not forget the management of vineyards, cruise ships and the plethora of other businesses that go to make up a tourist's overall destination experience.

These positive memories are reinforced by the breakfast waitress, the check-out clerk, and the tour guide all asking about what I did yesterday and what they can do to help make today's experience perfect for me. Not just asking, but caring about my response. Maybe they will enquire about what I tell my friends. In my own case it won't be through asking me to fill in a questionnaire, because for me it is an inanimate object. If I share my memories and my emotions it will be with other people, people who show a real interest in me and my life as a traveller and my curiosity about other people, their cultures and their environment.

Stories

Memories will become stories, around the kitchen table back home, around the office water fountain, or in social media. If a city, a region, or even just a single tourism business (yours!) can focus on encouraging and enabling positive story telling by its visitors, then it will have a sustainable future.

Stories need, like the rock-art drawings, to transcend generations, cultures and language. I think stories that stay in the mind reflect memories that began as strongly felt emotions and had some higher meaning to us in the context of our own lives.

It's happened for me in airport hotels, pavement cafes, as well as at the Taj Mahal and Petra. It happened when my wife and I stayed with the Bushmen in Namibia, and yes it happened at Foz Coa. It has happened when I least expected it, when I paid nothing for it and also when I had paid a fortune to experience it. It's drawn me in and draws me back. I tell the stories and I am sure you have your own.

If our guests tell their friends stories following their stays in our hotels, their meals in our restaurants, their treatments in our spa, their experience in our destination, then the destination and its tourism assets will have a sustainable future.

Japanese lessons

A recent trip to Japan afforded the opportunity to stay as a guest in Japanese ryokan hotels. These hotels provide the guest with a very different hotel experience – one that has been enjoyed by travellers for several centuries. Two stays amounting to five nights may not be a representative sample, but the experience did offer some insights and suggested areas of potential learning for hotel operators in other countries.

On arrival the guest enters a large lobby where luggage and wet clothing is taken and outdoor shoes are removed and replaced with slippers. After check in, the guest is escorted to the room.



The bedroom entrance door opens onto a small hall where the common area slippers are removed and replaced with a bedroom pair. There are sliding doors to the guest lounge – a space that may only have a low table and an ‘always on’ tea maker as furniture. All cupboards are hidden behind other sliding doors, as is the private bathroom. The small private bathroom, and I mean small, contains a plunge bath, a wall hung shower, basin and a toilet. European visitors will be intrigued with the heated toilet seats that are common in Japan and some other Asian countries.

There is yet another pair of slippers for exclusive use in the bathroom. The guest room flooring is rectangular *tatami* mats, twice as long as they are wide and usually laid in a “T” shape. These mats are traditionally made of rice straw covered with woven soft rush straw. Hanging in one of the cupboards is a cotton yakata, a casual form of kimono to be worn by the guest indoors and traditionally after bathing.

Most ryokan will bundle the price of dinner and breakfast with the room rate. Meals are generally served in a communal room with predefined sitting times, but most will also serve meals in the guest’s rooms. The guest will often go to the restaurant dressed in their yakata and slippers and sit at low tables. When the service staff bring the individual courses, the custom is to kneel prior to placing it on the table.

The ryokans we stayed at offered food and service of the very highest standard. Our kaiseki dinners typically included all or most of:

- **Sakizuke:** an appetizer similar to the French amuse-bouche.
- **Hassun:** the second course, which sets the seasonal theme. Typically one kind of sushi and several smaller side dishes.
- **Mukozuke:** a sliced dish of seasonal sashimi.

- **Takiawase:** vegetables served with meat, fish or tofu; the ingredients are simmered separately.
- **Futamono:** a “lidded dish”; typically a soup.
- **Yakimono:** broiled seasonal fish.
- **Su-zakana:** a small dish used to clean the palate, such as vegetables in vinegar.
- **Naka-choko:** a palate-cleanser; may be a light, acidic soup.
- **Shiizakana:** a substantial dish, such as a hot pot.
- **Gohan:** a rice dish made with seasonal ingredients.
- **Ko no mono:** seasonal pickled vegetables.
- **Tome-wan:** a miso-based or vegetable soup served with rice.
- **Mizumono:** a seasonal dessert; may be fruit, confection, ice cream, or cake.

In order for each dish to be enjoyed at the proper temperature, we were continually reminded to be punctual for meals.

Whilst the guest is at breakfast or dinner, the bedroom is visited by staff and transformed into, or from, a bedroom. The *futons* and pillows, which are stored in cupboards behind the screens, are laid out on the tatami mats and the table moved to a corner during dinner so that on return the room is ready for sleeping. In Japan the *futon* consists of a *shikibuton* (bottom mattress) and a *kakebuton* (thick quilted bedcover). Whilst the guest is at breakfast the process is reversed so that on return from breakfast, the room can again be used as a lounge.

So what do I think a non-Japanese hotel operator can learn and apply from such an experience? I suggest that it is the importance of the basics of hospitality. By focusing on all aspects (the physical ambience, the touch and feel of surfaces, the very personal levels of service achieved one-on-one between members of the service delivery team and the guests, the return from eating to a serviced room etc.) the guest is made to feel at home, creating an environment for relaxation and recharging.

Additionally, there is perhaps something to learn where the hotel offer includes breakfast and dinner – an offer that does not assume that others can feed and entertain the guest better than can be achieved “at home”. Done well, a full board offer creates a positive guest experience in a way that cannot be achieved with a room only or a ‘bed and breakfast’ offer.

And most important is the positive impact that a smiling, ever helpful, group of hotel staff that offer traditional high levels of service, have on the guest. We forget staff satisfaction at our peril. A happy workforce focused on delivering each and every element of the guest experience will lead to a happy guest.

Perhaps as hotel brands evolve some of these elements will be better incorporated into 21st century guest standards elsewhere in the world.

Ostrich attitudes to a recession

Coming soon to your economy is a recession. It may not be this year or next, it may not be for six or seven years, but one day it will come. Or maybe you are sitting in one right now.

How can a hotel or a hotel business strategise to survive and indeed benefit from a downturn?



Improving financial strength

First, we need to conduct some balance sheet management. A business's life support system is its ability to generate cash and at times like this (if not at all times), care must be taken to limit the investment in non-cash working capital.

Strategies for survival will include reviewing and limiting credit policies, reducing inventories of food and beverage, negotiating longer credit terms with key suppliers and even negotiating deferred payment of taxes.

Now is also the time to play the relationship card with your retail bank to ensure that you have the overdraft and other borrowing facilities needed at an appropriate cost. This might well mean extending your long-term loan facilities to realise capital improvements. If you have long-term loans in place and the ability to pay them off, this will be the right thing to do – it's the equivalent of battening down the hatches as a recession approaches.

Finally it's also appropriate to ensure that your shareholders agree to a dividend distribution policy, or indeed cash injection policy, that is appropriate to the new environment.

Protecting profitability

With a strengthened balance sheet, attention needs to be paid to protecting the immediate profitability of the hotel. As we know, hotels carry a large proportion of fixed or semi-fixed costs, so a small shortfall in revenue can have a disproportionately negative impact on profitability. Let's leave consideration of the revenue stream for later and consider first cost management in the context of hotels hit by a downturn.

Initial focus will be on eliminating unnecessary cost. Challenge yourself and your team to stop doing things that just don't add value to the customer. This might be as simple as the chocolate on the pillow or it might be to radically redefine the core offer in the way that EasyHotel and Yotel are doing.

Having stopped offering non-value adding things, next look at what is left and outsource those things that others can provide more cheaply. This might be as simple as the valet parking operation, or as complex as the provision of human resource management, or provision of IT.

Finally, you are left with the costs that can't be eliminated and costs that can't be reduced by outsourcing.

These are the costs that need to be managed in-house – by reducing both the unit costs and the units bought. With utility costs, for example, there should be a renewed focus on aggressively managing down the units consumed, as well as on switching suppliers to obtain the best price. Ultimately, you need to recognise that the big cost centres of payroll and utility are most likely to offer the greatest scope for savings to ensure survival.

The right response to revenue weaknesses

As demand starts to tumble, there tends to be an automatic response to drop prices to try to hold onto existing customers. This is often the wrong thing to do because it's addressing a non-issue. What's important is to identify the channels and segments where demand is dropping, as well as where those channels and segments are experiencing price resistance. They'll be different, so different revenue management tools should be employed to address these different issues.

As demand in one segment seeps away in a recession, it's important to replace this with business segments that are not declining, or even growing. There will be some. These may be segments not previously addressed, addressed historically by other hotels in other market positions or even segments that previously didn't use hotels. It's likely that you will start to steal business and open channels not previously used. And you'll re-price.

Refurbish, reshape and reposition

One of the lessons from previous recessions is that it is a good time to bring forward rolling room refurbishment programmes. With less occupancy, there is an opportunity to complete works without the profit disruption that would otherwise be incurred.

It may well be the time to bring in a professional management company to add the processes and disciplines that are missing in your current operation. And it may be the right time to challenge yourself regarding the hotel branding. Ensure that the hotel features on branded e-channels and in branded collateral speak to the new markets necessary for survival.

All of this requires your executive team, hotel management and hospitality staff to work hard to reshape and reposition the business. Positions will be lost as the hotel business evolves. Some of the cost reduction can be achieved by changing full-time positions into part-time and long-serving team members may prefer to be engaged in lower-paid positions than to lose their employment altogether. This will be a time when your approaches to people management and change management are fully stress tested, so you should invest in change capabilities.

And finally...

You'll be interested to know that an ostrich doesn't actually stick its head in the sand, it just ducks down when it detects danger. When ostriches feed they appear to be burying their head in the sand because they deliberately swallow sand and pebbles to help grind their food. Burying their heads in sand would in fact suffocate the ostrich. Don't allow it to happen to your hotel business!

The end of budgeting?

As they return from their summer holiday, hotel management teams around the world are facing up to the annual task – preparing the annual budget. Despite years of being pilloried as being a process that is out of touch with modern business needs, taking too long, costing too much, and encouraging value destructive behaviour, almost all companies will take their eyes off the ball of guest satisfaction to serve the alleged needs of corporate office in preparing the budget.

Looked at positively, a budget provides a focus for a hotel and a hotel company; it aids the coordination of activities and facilitates control. But as they say, if the budget provides a route map, it's only valid if you keep your eyes open and if the destination is the one you need to get to. If not the business will come off the rails.

And since we live in changing times, then chances are the goals established for the business in the current annual budget will prove to be misplaced (as indeed will the goals for the first month January). Humanity is not blessed with 100% foresight and hotel management is no exception. So increasingly we find businesses making use of rolling forecasts. Many companies will regard the rolling forecast as a more important directional tool whilst the annual budget allows the opportunity to look into some of the darker corners of a business' processes and their inter-relationships. Indeed perhaps the key benefit of the annual budget is that it requires the leadership of the business and all the functional leaders to talk to each other. The budget forces something that should be happening but may not be.

The other significant change that has occurred in recent years has been a move away from a financially based budget towards a route map that is denominated in both financial and non-financial terms. Usually referred to as the balanced scorecard, the intent is to target financial, operational, customer and learning goals. The accountants who typically run the budget process may feel challenged as they are required to give as much credence to soft indicators such as "employee satisfaction" as to hard data such as "days inventory held".



There are conflicting views that suggest the budget enables behaviours to change as well as constraining behavioural change. Certainly achievement of annual budgeted goals by the first quarter can lead to underperformance in the next three quarters whilst an overly ambitious budget may have the effect of switching off the management team. In the end the important issue is to ensure there is a culture in which value adding decisions are encouraged rather than limiting decisions to simply making budgeted profit.

How can you make sure this takes place? In the first place aspirational goals need to be set that encourage continual improvement rather than attainment of fixed annual targets. Success needs to be shared based on relative performance rather than fixed annual targets. Planning should be a continuous background process rather than an event that disrupts the annual corporate calendar. Corporate management and company leadership need to learn how to allocate resources – people, time, money – as needed rather than through annual allocations. And there needs to be continual cross-functional co-operation rather than the annual planning cycle.

This has some leadership implications. The hotel needs to be focused on improving the outcome for the guest and the customer, full stop, rather than focused on improving life at headquarters. There should be a matrixed network of teams accountable for results rather than centralised hierarchies. Leadership should explicitly reward success in the marketplace rather than success against internally determined benchmarks. Once teams are accountable for their success they should be given the right, indeed the obligation, to act rather than merely adhere to plan. In this adaptive world, values and boundaries are established rather than detailed rules and budgets. And importantly data, information and knowledge need to be made available to all and not limited to those with a “need to know”.

We’ve yet to see enlightened hotel owners build such requirements into hotel management contracts; regrettably these documents seem to be stuck in the 1960s in some respects. But we have no doubt that those that do will improve profit as well as their embedded management teams.

Leading the business – getting back to basics

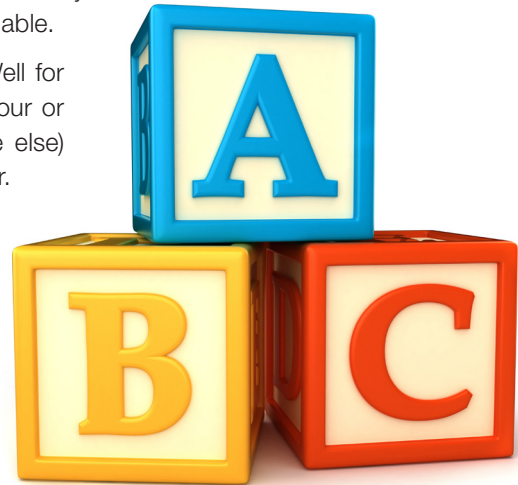
It's the time of the year when budgets are being prepared, reviewed and approved around the world in hotels. I wonder how much executive and management time could be saved if businesses took a cold hard look at what they are all about. I often see businesses being 'led' by leaders who have lost sight of the essence of their business. This gives rise to a waste of valuable time and energy throughout the company, not to mention the loss in actual value which results from resources being applied with a lack of focus.

Sustainable, superior returns accrue to hotels and hotel companies that focus on what they do best. The evidence is that simple and yet it's incredibly hard to internalise and stick to. It is the rare hotel that uses the "what we do better than anyone else in town" mantra in making decisions across every operating department. And even these companies will only really capitalise if they also align differentiating internal capabilities with the right external market position. Such companies are called 'coherent'.

As consultants, we are often asked to assess or comment on a hotel's relative market share (RGI). However valid such analysis is, it seems to me that it looks at the problem from the wrong angle. If hotel managers and leaders focus on what that hotel or hotel company does well – indeed what it does *better than anyone else* – and continually makes it better; *if* they then work hard to find market segments (which may be as small as one person) and *if*, after all that, they promote, price and position these differentiators, success is almost certain to come. Not just success for one month or one year, but for the long term. And because those hotels/ hotel companies are doing what they naturally do best, that success is not only sustained, it's sustainable.

In such a world, what would the budget process look like? Well for a start, it would involve the executive team identifying those four or five things that the hotel does really well (better than anyone else) and then allocating substantial resource to do it even better. This might involve improving the processes, improving the underpinning technologies, or training and developing the hotel team. It might require moving resource from non-core areas to core ones. Indeed there may even be a need to bring in new people, new technologies, or new processes. That would be one side of the budget process.

The other side would concern marketing. To put time and effort into the identification of markets – this may be many



people, several intermediaries, or even individuals. It would be important to design relevant marketing tools to promote the hotel's sustainable areas of excellence to a buying community.

So the budget review process would be two-fold:

- (a) An examination of whether the hotel is clear about where it intends to be different from the market competition, which capabilities will deliver these differences and how the hotel will leverage those differences.
- (b) Validation that the hotel is investing in the capabilities that really matter to making those differences and that it is doing so in a highly focused way that ensures all processes and technologies support the effort. Any performance management system should reinforce this focus.

Coherence around the essential capabilities not only shapes the leadership agenda. It also enables leadership to happen everywhere, because it aligns the organisation at every level to vision and mission, giving employees the tools to make the right decisions every day.



Revisiting revenue management

In recent years, the industry has seen increasing focus on revenue management as a core element of hotel management. Internal and external analysts have learnt to focus on RevPAR (room revenue per available room) and RGI (revenue generation index). Laudable as this is, RevPAR and RGI as goals in themselves ignore at least three issues.

Issue 1

The first is that a hotel's revenue stream includes not only room revenue but also revenue from restaurants, bars, conferences, banqueting and a plethora of other operating departments. All too often, we find that the investment in people, process and technologies that has been awarded to the rooms side of the business is completely or largely absent from the rest of the business.

Who are the key buyers of conferences? What is the lead time? What is the role of price in converting a prospect to a customer? What is the utilisation of each meeting room and what is the most profitable configuration of the meeting rooms? What conference business has been lost or denied and why?

The same goes for the restaurant business, for the bar business, for the wedding market.

If hotel management is to maximise the revenues available in the market, the disciplines now brought to bear on rooms revenue need also to be applied to the rest of the business, some of which has a rooms element and some not.

Issue 2

A second issue is that RGI ignores the size of the market and the growth or decline prospects of each segment within the overall market. Having your head down trying to build share value runs the risk of ignoring a pricing opportunity from a frothy market, or the opportunity to significantly change direction as segments of the market ebb and flow.

Price increases that are accepted by the market segment targeted, are easily the most profitable tool available to revenue managers. Revenue management needs to have as an over-arching goal, development of the overall and specific markets in which the hotel trades, as well as building the share of that market.

Issue 3

The third issue is that some revenue is good revenue and some revenue is bad. Bad revenue comes with a high channel cost and/or prevents the alternative sale of inventory as good revenue because it has been pre-sold for a low price, with high costs of acquisition and service, or sold for multiple nights.

Revenue, whether it is from rooms, non-rooms or a mixture, comes with a cost of acquisition. This may be the cost of:

- GDS (global distribution systems) links
- travel agents
- conference intermediaries
- the brand's efforts to offer consortia rate
- the hotel's website

Some of the revenue streams require cost to be incurred in a manufacturing or assembly process – e.g. the food and beverage consumed.

The costs of these different channels vary; the revenues are different by business segment, day of the week, month of the year, scale of relationship etc.

As hotel managers, we focus too little on capacity constraints. We only have 200 rooms to sell tonight, we can only feed 50 people for breakfast, and the car park can only take 75 cars. So when different channels impose different challenges to these constraints (tours and groups or conferences require multi-night stays, group breakfasts and lunches), we need to have thinking in place that can optimise profitability across these channels, each with their specific requirements for different product elements. Rather than maximising or optimising RevPAR and RGI, the goal of revenue management must evolve to focus on maximising the margin, the contribution by channel and optimising the channel mix.

Summary

This means that revenue management is likely to be less concerned with an insider's view of the business. To be truly effective, revenue management needs to know the hotel and brand's position in the market, its current and potential customers in current and potential segments, as well as their needs and buying behaviours.

If a hotel is to climb out of the “slightly-above-average” performance that comes from a focus on just RGI and RevPAR, the skills and expertise to drive additional profitable revenue is likely to require investment in a team's ability to think analytically and critically.

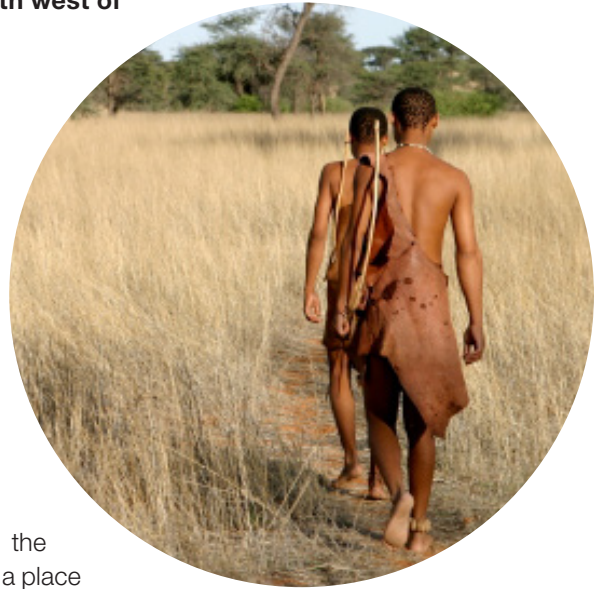
Asset managers need to be sure that the brand is not merely maximising value from branded channels, but is also maximising profit through giving the right weight to profitable demand from non-branded channels.

Survival – lessons from the Bushmen

Last month, we visited the second least-populated country in the world – Namibia – and journeyed to the remote north west of the country to spend time with the Bushmen.

Almost 20,000 years ago, their direct ancestors had migrated from what is now Botswana. Today's Bushmen maintain the way of life that has served their culture so well for more than a thousand generations.

In this article, we share some of our learning and how we believe the hotel industry in a time of crisis can learn to survive from one of the oldest, if not the oldest, peoples in the world.



The nest

The Bushmen's home is an inverted nest – a nest on the ground made of branches and covered in straw. A nest is a place of protection during sleep and a place for the rearing of the young.

The men move to live in their wives' villages with their dependent relatives.

Neighbouring villagers are related to each other, but the genetic dangers of inbreeding are avoided.

If a neighbouring village needs help or a visiting neighbour needs shelter, it is willingly given and some time, somewhere, the favour will be returned. Camps and people move regularly following the rains and the annual rotation of food sources. There is no chief – all important decisions are made collectively.

A hotel guest room is first and foremost a place for sleep, protected from the outside and with privacy from others. Hoteliers would do well to remember that the quality of each core element – the mattress, the sheets, the pillows, the curtains, the soundproofing, and the in-room climate – helps the guest achieve a restful sleep. When a hotelier compromises on any of these elements, the quality of sleep is adversely affected and, with it, the sense of renewal that the guest is seeking. Guest satisfaction falls as a result. In a competitive world, if you compromise and your competitor doesn't, you'll fall at this first hurdle.

A guest arriving at a hotel front desk is like a visitor from a neighbouring village – and should be welcomed and made at home. Welcoming attitudes, when displayed by the hotel staff, will be returned by the guest to the long-term benefit of the hotel. We are, after all, from one tribe.

Water

In developed societies, we have forgotten the life-preserving nature of water. We drink our coffee. We carry around our bottles of branded waters. We forget where the liquid that keeps us alive comes from and we forget its role in maintaining our health and fitness.

Not so the Bushmen, who will site their huts and villages close to reliable sources of water. These sources may, of course, change as the seasons move from hot and dry through the short rainy season to the long rainy season. Through the actions of the bushman, we saw plenty of evidence that water is available in the least hospitable places. You just have to know what to look for and the ability to dig down to the water table.

Cash is, of course, the water of a business. Without cash, a business can't start or continue.

But it's worth noting that, while many hotels provide free drinking water in bedrooms and on dining room tables, this is by no means the rule. We returned from Namibia believing that we need to replace the environmentally damaging bottled water with the provision of free potable water wherever and whenever the hotel guest wants it.

The hunter gatherer

The main source of protein for the bushmen is nuts. The Bushmen (men and women) gather seasonal roots, fruit, nuts and honey – and they share and enjoy the meat and fish that is the result of successfully hunting and fishing. This approach means that the gathering activities provide a foundation for year round survival with hunted meat and fish supplementing the core diet and directly adding to the communal sense of wellbeing.

All hotels need to find demand for accommodation year by year, month by month, week by week, and day by day. These sources will be different at different times. The first goal of the sales force must be to sell accommodation to enough separate segments so that there is a base of revenue sufficient to break even.

Only with bankable demand at above break-even levels should the sales force be empowered to aggressively attract demand. And such 'hunted' demand should be enjoyed because it will be directly contributing to the hotel team's success.

Window shopping

On their daily foraging trips and when hunting, the Bushmen range over a wide area outside the village. Each of them notes where plants are growing and bees nesting, so that the wild honey can be harvested. And when the seasons change, the new roots, fruits and nuts can be harvested efficiently. Using collective and individual memories to access future stores of food is an essential key to ensuring survival.

Every member of a hotel team has a role to play in paying attention to where tomorrow's business will come

from. Everyone should be on the lookout for new sources of demand and new channels – and everyone needs to have an agreed vehicle for sharing this knowledge so that the sales force can focus specific messages to specific segments at the right time and with the right offer. The sales team cannot and should not act in isolation.

Predators

The Bushmen walk through the Savannah in single file and most of the time they walk looking downward. They are looking for the spores and droppings of animals and the direction of trampled grass. By reading the environment, they are interpreting recent activity in the area they are walking through. Although a hunting opportunity may be uncovered, the core reason for such an approach is to proactively guard against danger.

Business can be stolen or lost very easily. A wise hotel team pays special attention to the acts of direct and indirect competitors. As we've illustrated before, neglecting guests can cause business to drift away, but so can the launch of new and better offers by competitors.

And it's not just customers that can be stolen. Competitive advantage can lie in IT systems, HR systems, and in procurement.

Hotels that are intent on surviving do not allow competitors to poach their business – but they are quite comfortable continually stealing business from competitors. Businesses that intend to survive ensure their competitively strong processes are bolstered.

Opportunism

The bushman will take each and every opportunity that the land offers. As they forage, they will stop a while at a bush to feed themselves on the berries that are in season. And the women will feed the baby they are carrying with these berries too. As the bushman is making his way to a known source of wild honey, he will be on the lookout for game to hunt. The bushman survives by augmenting a basic diet with opportunistic gains.

A hotel that is intent on surviving will have a team that is highly alert to opportunities to up-sell and cross-sell to existing customers, as well as to converting tentative enquiries into sales, no matter what channel is being used by the customer.

No stone will be left unturned in meeting in-house customers' demands with attractively priced offers.

Conclusion

We hope that these observations on survival can help you refocus your hotel business on those elements that can contribute to long-term survival during the challenging times we are living and working through now.

Accidents happen – but you shouldn't lose existing customers

(A true story – my wife Rosemary was the guest).

Guest who is checking out

I've decided that I am not coming back to stay here in future.

Guest service agent

Can I suggest that I call the duty manager?

Duty manager

Good morning, madam. I understand that you have stayed with us on several occasions including the last three nights, that you feel we have let you down and you're cancelling next week's reservation. I'd like the opportunity to change your mind. What can I do to make that happen?

Guest

It's too late. I've been staying here off and on for more than a year now. I've probably spent 20 nights in your hotel and spent several thousands of pounds with you. My client, who pays for my full board accommodation while I am in town, has corporate rate agreements with three hotels in the area. Until today, I have chosen to stay here because it's a hotel with a new fresh feeling. You offer organic food and high-speed free Wi-Fi. Although of the three hotels you are the least well located for my client's office, I have always chosen to come here if I can.

But I've had enough. Gradually, you've reduced the standard of what you're offering and your team has lost touch with your guests, particularly in your bars and restaurants. Despite being a frequent visitor, I am not recognised or valued. The sense of value for money, welcome and fairness has slowly but inexorably reduced.

Take last night in the restaurant. I was having dinner with one of my client's board members. Around us were several well-known personalities. This is a successful restaurant. We had our starter, and then everyone in the restaurant waited, waited and waited. I was engaged in a business discussion and, for a while, didn't notice. But then it became clear that the kitchen and waiting staff had been redirected to serve a meal in one of the



banqueting rooms and that we diners in the restaurant had been left to fend for ourselves. I complained and eventually service was resumed. The head waiter apologised and did not charge us for our wine.

But why did it happen in the first place? You deliberately diverted resources from your small-ticket, high-margin, and high-long-term-value customer to an ad hoc low-value big-ticket customer. Who is the mad man who made this decision? The customer – your guest – has a choice and I have made mine. I am going to use one of your competitor hotels from now on.

Duty Manager

But madam, surely one night's inattention is not enough for us to lose your custom?

Guest

No of course not. It's just the last straw. Take the night before in the bar. My friend and I ordered a bottle of wine and shared two starters. The dip with one of the starters was inedible and the other "spicy" dip was anything but. We left them and the waitress cleared away without taking any interest and without asking why we were leaving so much of it.

We then ordered a cheese platter. We waited and waited and eventually I got up and went to the bar to chase it up. How difficult is it to assemble and serve a cheese platter? When it was eventually served, one of the three tiny pieces of cheese was mainly rind.

It wasn't like this last time. I had a very good steak and frites. I just get the feeling that you are increasingly taking your guests for granted.

And then, to rub salt into the wound, there's the no-show charge. I was booked in from Sunday night for a four-night stay but didn't let you know that I'd only be coming on Monday. On check-in, I was told that you'd charge me for the no-show. I asked that the receptionist take advice from management in the light of my frequent use of the hotel and the huge size of my client's account with the hotel. The next day, I asked about the decision and was told that the no-show charge was being applied. I said that's a choice you have – and I have a choice too.

I have a choice to use another hotel and that's what I'm going to do. I have a choice to tell my client about my experiences here and I will do that too.

Duty manager

But madam...

Guest

Don't 'but madam' me. This is the first time any member of the hotel team has taken the time to recognise me and my personal needs. Would it be so difficult to recognise me when I come down to breakfast instead of being treated as a bedroom number? Would it be so difficult to welcome me back to the hotel when I check in? After all, I might never have stayed here if it hadn't been for my client's arrangement with you. Would it be so difficult for someone to pass the time of day with me when I am waiting in the lobby? Would it be so difficult to treat me as me, rather than as a nobody, a room number, or as anyone else?

It's like a dripping tap – turning off a guest happens slowly and away from the headlines. But now that you've turned me off, I'll tell my client so that when the new negotiations for the corporate rate come up, they'll remember this consultant's experience and just perhaps find another hotel to be their third hotel.

And I'll talk and write about this experience. In any case, this guest is off. I have a choice and I am exercising it.



White Swans

I am lucky enough to live on an estuary.

Where the river runs off the hills and into the sea. Where fresh water meets sea water. And where swans live and breed. They like the brackish water. They are beautiful big birds and part of the landscape of our lives.

As I write this, a pair of swans has just launched themselves from the mud banks of low tide and their wing beats echo up and down the valley as they fly inches above the ground.

One of the most important business books of recent years is *Black Swans* – in which Nassim Nicholas Taleb puts forward the proposition that there should be no surprises. Everything can be forecast. It's our biases, collectively and individually, that get in the way and make us blind to uncertainty. If your strategy hasn't anticipated an unusual event, it's not that the event could not have been forecast, but your thinking and processes which were not robust enough to anticipate it.

I got to thinking about this as the pair of swans flew by. They are white swans and it reminded me that we can also forget to pay sufficient attention to the customer who will always come to us, or at least is brand loyal to us. We ignore the beauty of the swans on our back door. We can be blind to certainty and near certainty – just as we can be blind to the Black Swan.

We spend an inordinate amount of time and effort attracting new demand and forget to recognise the regular guest – the customer who will always use our hotel. The Sunday brunch buffet queue probably contains quite a few. This week's wedding couple will be celebrating their anniversary in 12 month's time and will have good memories of our hotel. The corporate guests exercising in the gym were probably here in this hotel at the same time last year.

Do we pay enough attention to the white swans that are the bedrock of our business as well as managing the risks and opportunities represented by the black swans?

Plan B

However you go about the budget process, you'll be ending up with Plan A – something that Head Office, your team and your advisers all believe is the goal for your hotel for the next year, or the next five years.

Well done on getting the beast to bed!

But before you congratulate yourselves too much, just remember that for the Chilean miners stuck underground it wasn't Plan A that worked – it was Plan B. And there was a Plan C too.

So what is your plan B?





Great Hotel Experiences

I am writing this at 39,000 feet returning home from another assignment – as usual in my life this past week I have been living in a hotel that is the subject of my advisory services.

I left university in 1972 with a degree in hotel management and qualified as a Chartered Accountant in 1976, so I guess that makes about 35 year's worth of hotel industry career living and working in hotels in more than 60 countries. It is probable that I have had more than 4,000 separate hotel experiences. During these years I have spent perhaps 10 days a month staying in hotels, and mainly urban, upscale hotels rather than resorts.

In the airport lounge waiting for boarding today I was reading the newspaper with its favourable hotel reviews. I got to thinking that one reads too often about the great hotel experiences – but if my journey through life is anything to go by, the road warrior has his/her fair share of things to moan about.

Here's my top 20 – in no particular order:

1. The all too frequent “what room are you in?” barked as you carry your room key in a highly visible way into the breakfast room and then ticking my name off on a dirty crumpled sheet before the room manager even starts to think about recognising, welcoming and seating me.
2. Live music in a bar or lounge that is so loud you can't carry on a conversation
3. Bedroom light switch configurations that seem to defy logic and require you to get out of bed to put them on
4. Overly stuffed pillows
5. Bath towels that are too small and/or have been laundered for so long they are no longer comfortable
6. Restaurant and bar prices that bear no relation to the world outside the hotel
7. Wi-Fi I have to pay for
8. The barrier between guest and employee that is called the Reception Desk
9. Overly zealous restaurant managers who won't leave the diner alone to enjoy the meal without constant interruption

10. The check-out queue
11. The long wait for the check (bill) to be brought to the table in the restaurant or bar
12. Ridiculous prices for photocopying and printing in a hotel targeting business guests
13. The notice telling me that the hotel manager 'kindly invites me to postpone laundry of sheets and towels for the sake of the environment' but doesn't reward me for the implied cost saving
14. In-room climate control that switches off in the middle of the night making the room airless and warm just because the Chief Engineer thinks no one will notice his energy saving initiative
15. Buffet chafing dishes that need replenishing before I arrive at the counter
16. Cold plates, cold food
17. Plated food that has obviously been sitting under a salamander too long waiting for the waiter to regain interest in serving me
18. Groups
19. Cheap instant coffee for use by the guest with the in-room kettle
20. Aloof pretentious management and staff who forget that it's my room rate that is paying their salary

So what are your top 20?

The most important numbers in hospitality

A client asked me the other day what KPIs a hotel management team should regard as key. I gave my usual answer – you can probably guess.



But then I got to thinking about something that an associate had written in a client document.

What I had read was something of a personal Road to Damascus (where I lived for a couple of years as it happens!) So my new answer in the future, which I offer to you, is that the two most important numbers in a hospitality business are 10 and 5.

Because a service provider should make visual contact at 10 paces as a guest approaches and then make verbal contact at five paces.

This is a recipe for success in this business if ever there was one. Don't you agree?

The price is wrong

Revenue management has become a key focus for professional hotel management in recent years and those in charge of this area of a hotel's performance increasingly have the ear of the whole organisation. Many more of our consulting assignments now include a review of the organisation, people, processes and technologies that drive revenue management.

So it was interesting to read in "The Economist" of a recent piece of research conducted by the UK's Office of Fair Trading – "The Impact of Price Frames on Consumer Decision Making". As consumers, we are exposed to five different price frames:

- "drip pricing" – where only a part of the price is revealed at first and extra charges are levied as the sale progresses (think about buying an airline ticket online)
- "sales" – where the price is contrasted with a higher price (was £2 now £1)
- "complex pricing" such as 3 for 2 offers where the unit price has to be worked out
- "baiting" – where a cheap deal is advertised but restricted to a few lucky shoppers
- "time-limited offers" – only available for a short period



Shoppers in this experiment made the economically correct decision most of the time, even when faced with drip pricing. In the research, customers (read "guests") made two mistakes. The most frequent was to shop around too much or too little. Under straight per-unit pricing, consumers tended to over search. But with the above price frames, consumers tended to snatch at the deals offered. Interestingly although the research clearly showed consumers lost out, there was no corresponding gain for the seller. Sales volumes were virtually the same whichever way the prices were presented.



The F Word

Food is the four letter word that we in the hotel industry dare to say. “Food and Beverage” (F&B) can be many things. It is a profit, or sometimes loss, making centre, a career to be pursued in its own right, a department in the Uniform System of Accounts, and the part of a full service hotel where most people are employed.

It is strange that we industry insiders are apparently so fixated on ingredients when our guests and customers buy things like “an anniversary night out with my spouse”, “our daughter’s wedding party”, “a family breakfast at the hotel before going out exploring our holiday destination”, or “lunch with friends”.

Is it me, or is there a disconnect between what the industry puts its thinking and resources into – we call it F&B – and what the customer buys – they call them “great experiences” in restaurants, bars, or banquet rooms?

For the majority of us, eating and drinking is not about survival. We have a privilege denied earlier generations of being able to design, prepare, serve and then enjoy our meals and drinks as ‘events’. This pleases us, our nearest and dearest, and our friends and colleagues. The same applies to our guests and customers.

But when we design a kitchen, propose the interior design of a bar, or work in/lead a F&B department, too many of us put all this behind us.

For the time we are at work, we become an avatar focused on the ingredients of Food and Beverage – the food cost percentage, the supply chain, the labour cost, and labour turnover. All of these factors are important, but are just Maslow’s hygiene factors surely.

Think how much better it would be for our guests and customers, our shareholders and work colleagues, if instead we aimed to deliver a faultless and memorable dining or drinking experience.

Recently I went back to school, spending a day in the good care of award-winning Ashburton Cookery School re-learning Chef Skills. As a hotel school undergraduate at University of Surrey, I had been taught kitchen and restaurant skills of course. But that was 45 years ago and for most of my post graduate life I have been working in finance, albeit within the hotel industry. After so long, some skills have evaporated. Some just lay unused and rusting. But once I get a knife back in my hands I find I can still filet a sea bass! And when I come to plate up (on a slate) the wild pigeon breast I have cooked, I produce something which is good to look at and good to eat. At the end of the class, I am re-enthused for the ‘art’ of the hotelier, something I had consigned to the far right of my brain for too long!

I’ll treat myself to more days at school I think! I strongly recommend reconnecting to your inner self by discarding your business suit in favour of chef’s whites, if only for a few hours!

You won’t regret it. And if we all did it, then I suspect that the F&B in our hotels would edge ever nearer to the great exceptional experiences that our guests and customers seek.

Night Passages

Close encounters

The vintage square rigged brigandine was under full sail in the Pacific Ocean heading from Samoa to Tonga. One of eight 'voyage crew' I was on bow-watch from midnight to 4am. I was straining my eyes across the waves through the pitch dark when I thought I saw a light ahead. I waited a few moments and I could see it was a white light. I was sure. Odd, I thought. I went back to the stern and told the duty officer. He too thought he could see something, but the ocean is huge and one's eyes can play tricks. No risk yet. I went back to the bow.

Five minutes elapsed and then I could see a red light as well as the white light. But it was bigger. I went back to the stern and we agreed that it was indeed another boat and that we were on opposing passages that risked a close encounter. Had they seen our lights indicating we were under sail (so not capable of evasive action)? We had no way of knowing.

We were just four people awake, with about 20 others asleep below deck. What do we do? We watched as the boat continued to bear to down on us, becoming bigger and bigger over a ten minute period. Soon we could tell that it was a huge container vessel, presumably on a passage from Tonga to Samoa. There were probably fewer people on it than on our sailing boat. It was probably on automatic pilot, our duty captain helpfully suggested.

In the end it passed within a mile of us and we never knew whether they'd seen us or not!

This experience and working night shifts as part of the crew, taught me the four roles and responsibilities that are critical as a boat sails through the night:

(a) Bow-watch (b) Sail resetting (c) Steering (d) Responsibility for the whole

And the more I thought about it, the more I compared it the 24x7 business of running a hotel or resort. It made me ask myself whether we in the hotel industry could learn something from sailing.

I have to admit it's been a while since I did night shifts in a hotel. But my impression is that as an industry, we have low expectations of the teams and management that are on duty and we sub-optimize the asset and management of the operation through the hours of darkness. Let me explain what I mean in more detail.



Bow-watch

In today's online world, we have a mass of data and information about our competitors. Some of our competitor's actions remain out of sight beyond the horizon, but some are visible if you and your team look for them. But you need to be on guard, on the lookout. Subtle changes that appear to be inconsequential can come up and bite your business quickly if you don't keep a close eye on things. Some actions by competitors will not impact you; but some

will and evasive action may be required. Turning around a hotel is not something that you can do quickly – a subtle change of course may be all that is necessary.

And if we agree that competitor awareness is a key part of successful management, then what prevents some or all of this intelligence gathering and knowledge development taking place at night, as well as during the day.

Sail setting and steering

A squared-rigged sailing boat is at the mercy of the winds and one can only get from A to B by continually adjusting the sails. There are a number of different sail configurations that you can have and once the configuration is up, then the sails are continually adjusted to capitalise on the direction and strength of the wind.

So too with a hotel and resort – the environment in which the business is being operated is continually changing. At one level there are the political, economic and social environments in the demand generating countries, as well as the country and region in which the hotel is located. But the environment also changes as guests and customers' tastes in food change, as their appetite for different experiences changes, or maybe as their expectations of their hotel's "greenness" changes.

The successful captain and crew of a hotel should be sensitive to the changes in direction and the strength of the different environmental elements in which the hotel trades. They will continually make subtle changes to the way that the hotel is operated. Sometimes a major change is needed, capital needs to be deployed, or completely new operating procedures put in place, or both.

And again, I don't see why this type of thinking and these actions should be limited to the 8am-8pm time slot when senior management is on duty; nothing prevents us doubling the effort we put into sail-setting at the hotel by empowering our night and evening management and their teams.

Responsibility for the whole

Indeed as I reflected on the sailing experience, it was just that, a reflection. I put it to you, that we in the hotel industry do not have the ambition for the night manager that we have for the duty manager, or the general manager. Yet on a boat all three 8-hour shifts are equally and collectively responsible.

Is your night manager on the hotel's executive committee? When revising the strategic plan for the hotel do you have the same expectation of the night manager as you have of the food and beverage manager? And is the night manager challenged to build the revenues that the hotel earns during the hours of darkness? The Economist reports that in Western Europe 15-20% of the workforce is employed at night. Is your asset being positioned by your night team to sell to this audience?

Can you afford to sub-optimize the hotel management one-third of the time? I suggest that our thinking needs to change so the night shift workers and their management are given the respect and importance they deserve.

Desserts:

Asset
Management

Closing a hotel

Recent work in Greece has reminded us that in some situations, it is received wisdom that hotels should close for a number of months “when demand is low”. The question is, is closing always the best option?

A hotel is essentially a fixed cost business – the reciprocal of this truism being that the marginal cost of a single incremental room night or a single additional meal is very low.

Let's just think about the variable costs:

- Food
- Beverage
- Telephone Calls
- Bathroom amenities
- Linen laundry
- Spa products

That's it. So if you close a hotel for a day or for a week, you save next to nothing.

If you close for around a month, you still save very little but you do get the chance to recuperate vacation entitlement and give yourself the opportunity to do some essential Front of House repairs and maintenance, i.e. you manage the balance sheet but not the P&L.



If you close for more than a month, you can choose to lay off some front line staff; perhaps you close one of the restaurants, or close down one of the floors. But the semi-variable costs you “save” will be pretty minimal and in your closing down and reopening processes, you will incur incremental redundancy and training costs.

Whether you close for a week, a month, or a quarter, you need to keep the elevator maintenance agreement in place, the freezers need to stay on as well as the air conditioning, management and the accountants stay, and the marketing team remains in post etc. So in my opinion I don't think there is much scope to save money with semi-variable expenses – there may be some savings, but it's not huge!

Let's use an example a hotel with €11.5m of revenues, €1.5m of EBITDA and a cost base of €10m. The variable costs might be:

- Food Cost of Sales €0.7m
- Beverage Cost of Sales €0.2m
- MOD Cost of Sales €0.6m
- Management Basic Fees €0.4m

And let's say another €0.5 that can be prised out of the other areas e.g. travel agent commissions.

So the costs we can avoid by closing are just +/- €2.4m out of a cost base of €10m = 25%.

The rest of the costs will continue to be incurred.

If the hotel is closed for more than just a week or two, but instead for three months, there is some scope to save additional costs. But I suggest it is likely to be less than 25% of the other €8m, so maybe €2m. Because management stays on, real estate taxes need to be paid, insurance and energy needs to be consumed, sales and marketing continues, and the chef and his top team stay in place.

All of these considerations leave me thinking that the costs of keeping a three-month closed hotel ready to re-open are of the order of $(€10.4m - €2.4m - €2m) = €6m$ per annum = €0.5m per month. And that's without the costs associated with closing (redundancy) and reopening (hiring and training)!

Personally I think this is a cost that a responsible owner would avoid like the plague. So I don't understand why hotel owners and operators decide to close for even short periods. Even the man in the street will recognise that it is extremely uncommon for hotels to close for a week, and even more unusual for hotels to close for three months.

Do you agree?



Risk Management

Risk can come in various forms. You may be at the point of lending funds to a senior vice president who is developing a mixed-use facility including a branded hotel. You might consider launching one of your hotel brands in an emerging economy such as Brazil, propose to develop a spa in your hotel in Brighton, or evaluate your hotel management company's proposals for the deployment of capital from the replacement reserve relating to an airport hotel in Greece. In all scenarios you will be taking account of risk.

Some risks arise from the external environment; others arise internally from the business itself and the business model adopted. Whether driven internally or externally, the nature of risk can be strategic, financial, operational, or hazard.

Looking only at hazard risk assessment, one thinks of risks that arise from natural events, misuse of intellectual property, suppliers, environment, contracts, fire and life safety, and hygiene.

In the first place, one needs to identify the risks. This is anything that can cause harm. And then consider whether there is a high or low chance that someone can be harmed by this hazard, together with an assessment of how serious such harm could be.

When you work in a hotel all day, sometimes it's easy to overlook some hazards. There is nothing that beats walking the property to look and assess what can reasonably be expected to happen. Employees have a role to play in supplementing this assessment with their own experiences and thoughts. Look into the night manager's log book and the engineer's work logs to see what has happened to the plant that you may not be aware of. Remember to think about long-term risk as well as more immediate safety hazards.

Having identified the hazards, you need to evaluate who might be harmed and how. You don't need to identify people, but you do need to identify groups of people (staff, customers, suppliers, neighbours, sub-contractors, shareholders, etc.). Next in a hazard risk assessment comes the evaluation of risks and the determination of the precautions to be taken. You can never prevent all risk, so the goal must be to install reasonably practical solutions. Look at what you are already doing to reduce risk, what controls you have in place and how processes are organised. Best practice and internal/external benchmarking are good sources of ideas regarding how to proceed.

Ask yourself if you can get rid of the hazard risk completely. If not, how can you control the risk so that harm is unlikely? When controlling risk, try a safer option, prevent access to the risk, organise processes to reduce exposure to the risk, issue protective equipment, provide welfare facilities. It need not cost a lot.

Now write down what you have done. Demonstrate that you have made a proper check, asked who might be affected, dealt with the significant hazards, implemented reasonable precautions and left residual risk low. And don't forget to involve your staff.

Finally, come back to the matter regularly. Business and risk do not stand still. Beware of risks that bite back.

The moral compass

A recent assignment reminded me that owners and operators of hotel companies drop their ethical standards at their peril.

At the end of the assignment, it was my job to tell the client's Board that I had uncovered several examples of sensitive information leaking from their business.

This was bad enough, but there was also evidence that executives and staff had received and used information about an as-yet-potential-and-future business partner.

In my mind, it is the collective responsibility of the board to address matters such as this. The chairman and his colleagues need to formulate remedial processes that provide long-term protection to all stakeholders and ensure that any short-term gain by the recipients of the information is nullified. The recipient company also needs to challenge itself, starting at the top of the organisation.

Competitive intelligence

Generating and using competitive intelligence is a key strategic activity in today's highly competitive workplace. Most mature companies have guidelines for executives, management and staff in a corporate code of conduct that integrates the need for gathering and protecting competitive intelligence.

These guidelines should be extended to all current business partners, ensuring future partners are aware of 'the way we do business here'. Start-ups may not have such processes in place, or may not have robust processes in place, but they need them just as much as established businesses do.

In the EU and USA, the presumption is that the sharing of operating data is likely to be contrary to the interests of consumers. Therefore the only way by which the industry gains access to benchmarking information is through warehousing data with STR Global, MKG, TravelCLICK and others.

In other parts of the world, such a presumption is not reflected either in law, or practice. Hotel operators seem happy to share details of their relative operating performance obtained through informal networks that exist in businesses that



are otherwise competitive. Hotel owners and operators both need to introduce corporate codes of conduct to address this matter.

Ethics

Vendors awarded major contracts should be able to demonstrate that they are ethical in their approach to the way they manage their business.

This is particularly the case when awarding a long-term management contract. In such a case, the net present value of the fees payable under a typical 20-year contract can represent the equivalent of half the cost of constructing the hotel. The awarding board needs to satisfy itself that the incoming operator shares the same ethical philosophy. In the process of awarding the contract, the board should satisfy itself that a vendor's decision-making process is completely transparent.

An ethical company is one that thinks about the way it does business, including its relations with competitors and business partners.

Choosing an operator

When we get married, we go through a lengthy and elaborate courting process with extensive support to the couple given by friends and ‘experts’ before the knot is tied.

Yet many developers and hotel owners have jumped into bed with a hotel operator under the terms of a 20-year or longer management contract on little more than a whim. Having been engaged recently by several clients to assist in the search and selection for hotel operators, what have we learnt?

There are clearly three elements:

- *The legal documents*
 - *to protect the owner and incentivise the operator*
 - *to position the operator as the agent of the owner*
- *The financial package*
 - *usually a mix of basic and incentive fees*
 - *together with charge back provision*
 - *perhaps with fee stand-aside provisions etc.*
- *The suitability of the operator to the hotel and the business.*



The third element is arguably the most important and the one we want to discuss here.

Brand vs operator

In our view, one must first *separate the decision concerning the brand from the decision concerning the operator*. For example, while Starwood might brand and operate a Sheraton or a Westin or a Four Points, in many countries a hotel owner can and should, separate the decision as to which brand to put on the hotel and which operator to engage.

What a brand does is quite different to what an operator does. One needs to separate the criteria in order to identify which brand is most likely to deliver to the hotel the highest number and value of customers throughout its life. Choosing a brand should never be an accident – the decision must be carefully made to ensure the brand strategy, structures, processes and execution drive long term value through guest preference and employee behaviour.

Often, of course, the right brand will come with the right operator. In our example above, Starwood will obviously have an operating advantage when it comes to a Westin, a Sheraton, or a Four Points. This is because as a

company, Starwood will possess the first crucial differentiator of an operator: proven experience with the brand, its channels of distribution, its loyalty programme, its customers, its competitors.

However the truly excellent operator will also be able to demonstrate an ability to bring business to the hotel through the unbranded channels and this can be particularly important in a hotel with extensive conference and meeting facilities, a spa, or other non-hotel-brand influenced elements of the offer.

Surviving change

A key process that a hotel operator needs to bring to almost all situations is the *ability to deliver a range of services through a period of change*. This might be technical services support during the design and construction phases, or the execution of operational changes that arise from a rebranding or a re-positioning.

An excellent operator will be able to demonstrate deep experience in change management.

Profitability

A further area of excellence required in a hotel operator is the *delivery of profitability ahead of market averages over a sustained period of time*.

This requires the mix of skills that brings excellence in sales and marketing, restaurant and bars, and in financial management and reporting – and a passion to benchmark not only R.G.I. but also GOPPAR.

And because customer satisfaction comes from employee satisfaction, an excellent operator will be able to demonstrate a track record in *talent management and high levels of employee satisfaction*.

Improving employee satisfaction rates, declining rates of labour turnover, an increasing number of skills training hours delivered – these will be the traits of an excellent operator.

Standards of operating performance

One of the key areas that an excellent operator will focus on is the use of *Standards of Operating Performance* (SOPs). Whilst these operating manuals should describe the product and service that is intended to be delivered and form the script of skills training, excellent operators have embedded processes to learn from errors and defects.

Operators that strive to eliminate error as a high priority will treat guest complaints as an input not as an output. They will have processes in place that dissect the misguided thought processes that gave rise to the complaint.

Outsourcing

In today's world, few hotel operators can deliver such a broad range of services from within their own resource base – so we'd expect most operators to be aligned to one or two key business partners.

An operator that buys in certain resources should not be viewed as inherently weak – far from it. Managing a number of outsourced vendors is what hotel management companies need to do in order to stay focused.

The quality of partners chosen by an operator will tell you a lot about the quality of the operator. And this is nowhere more evident than in the mix of telecoms, technology and technology-enabled partners that an operator brings to the table.

Summary

Above we've described some of the traits of an excellent operator. This is a selective list and there will be other traits that are relevant according to location.



Selling a management contract

Part of the 'old normal' was that hotel management companies could woo intermediaries like banks, legal practices, real estate brokers and consultancy divisions of the major accounting practices and get a practically free ride into opportunities. A tweak or two on a standard fee proposition and 'bob's your uncle', we've got another flag on the map. In tomorrow's world such an approach seems to us much less likely to be a sustainable route to market.

We believe hotel management companies will have to focus on defining their unique proposition in the context of each specific site.

Hotel operator excellence

For a start, hotel operators will need to be able to demonstrate that they can operate hotels – and do this more efficiently than others.

Surprisingly, in our experience, few existing hotel management companies can readily provide evidence to support a statement that they have unique processes that can be shown to produce higher than benchmark GOPPAR. It's not so difficult to do yet we have found that the operators' development teams are not provided with the evidence and do not seem to obtain such evidence their organisations.

A key part of operating a hotel is talent management – the ability to attract, retain and develop executives, management and staff all of whom represent the way the brand values are conveyed to the customer.

It ought perhaps, to be the key differentiator for a management company – after all what are they actually managing if not people? Yet again, all too often we find the hotel development executives are unable to properly articulate the process excellence in their business or give examples of its outcomes.

There is, of course, one very good way to sell a product and service – and that is to give examples of happy customers. Yet how many hotel development executives can provide examples of owner satisfaction from elsewhere? And how many times has one been offered the opportunity to speak to a satisfied owner – precious few in our experience.

Appropriateness of the hotel brand

Under the old order, it was quite easy to decide on the brand. The hotel owner / developer started with a thesis that he wanted a Hilton or a Novotel or a Holiday Inn.

Now when the sales rep from the hotel brand comes visiting, he is selling something called Hampton by Hilton or Pullman or Indigo. And in our experience, the offer is increasingly limited to these new brands as the brand owner seeks to build a family of brands on the back of a successful master brand.

At the end of the day, the brand needs to offer a benefit to a defined audience who are persuaded to believe that their travel experience is augmented by use of the brand. In part, it's about product, service and experience; in part, it's about distribution; in part, it's about channels of distribution; in part, it's about the tools used to promote the brand; and in part, it's about price.

The seller of a management contract faced with a knowledgeable owner needs to be able both to articulate these matters and give benchmarks of performance that demonstrate what the recommended brand can be reasonably expected to deliver in this location.

In our experience, few development sales executives are sufficiently persuasive when it comes to brand appropriateness – and this is even more the case as they are incentivised to sell newer members of the brand family.

Cost is an issue

It would be stupid to pretend otherwise. When the NPV of most management contracts represents something like half the construction cost of a hotel, it's little wonder that owners seek to get as good a financial deal as possible.

In reality of course, there is such an opaque market operating that the potential owner of a managed hotel finds that there is relatively little difference in overall cost.

Unlike other professional services, it's not easy for anyone to categorise the providers of management contracts into budget, economy, full service and luxury. Most owners would categorise most offers they receive into the full service or luxury end of the continuum. We await with interest the arrival on the market of a low-cost provider of hotel management services. In our experience, there is a gap in the market.

Aligning interests

'You can have any colour so long as it's black' – Henry Ford's initial manufacturing proposition is all too often the start and finish point for sellers of hotel management contracts.

We listen to our owners and this is not something that many development executives would claim or be able to support. In a world where online networking is increasingly the norm, the next generation of management contracts needs to come with a much more web-enabled and adult approach to knowledge sharing and willingness by operators to listen.

For most operators, but not yet all, it is now recognised that the owner must have the right to sell the contract unencumbered, just as owners increasingly recognise that operators take some time, maybe years, to recover the initial investment in launching a hotel or rebranding a hotel. So most times, it is now the norm that contracts provide for an early termination by one party through a compensation of the party. This is just one way of aligning interests.

But if we explored the proliferation of 'sub-brands' and the reluctance by operators to provide master brand radius protection for a number of years or even sub-brand protection, we are not yet at a point that operators can truly sleep easy at night knowing that their business objectives are wholly aligned with those of their business partners, the owners.

Perhaps the biggest ask that a management company makes is to require the construction of the hotel to brand design standards. The physical definition of the brand is not defined, not available or just about to change. Just try to get a cost per square meter estimate out of the person trying to sell a hotel management contract. It's not an unreasonable request yet few developers will even give a range of costs caveated with a legal treatise to avoid liability.

Conclusions

There is plenty of opportunity for management companies to sell their services. The winners will increasingly be those that treat their prospective business partner with sincerity by delivering a focused sales message that talks to the true areas of value-add in the specific situation and providing examples of where best practice can be expected to deliver value.



*Florence rooftops from
Sesto Restaurant, Italy*

Unleashing innovation

Those of us fortunate enough to have worked at the Damascus Sheraton Hotel in Syria have been pained by recent events. However these circumstances have brought some of us back together again after many years of separation.

Valentino Bertolini and I worked there in the late 1970s when we were both at the beginning of our careers. Valentino now leads Starwood's cluster of hotels in Florence, Italy. My wife and I were vacationing nearby recently so we passed by and had dinner with Valentino and his wife Françoise. Our dinner conversation served to prove how close we still are after all these years and also allowed Valentino to show off his rooftop restaurant.

Yes, ROOFTOP. Received wisdom has it that one should never build a restaurant on a hotel's top floor. How do you get food and staff up there? How do you get the townspeople not only to come into the hotel, but also up to the roof? How do you get planning permission? It is madness surely!!

Here is a glorious example of how one of our industry leaders, Starwood, has created and sustained an environment of encouraging innovation in which Valentino was able to succeed.

Very occasionally, a hotel restaurant can be much more than just a place to eat. In the best cases, a restaurant can transcend its original remit and become a brand of its own, its reputation growing beyond the walls of the hotel. It becomes a profit centre and adds value to the hotel. SESTO, a rooftop restaurant on the 6th floor of the Excelsior, a Westin hotel in Florence, challenges our received wisdom.

The hotel is a historical building which dates back to the 14th century and is located in Piazza Ognissanti overlooking the Ponte Vecchio, the Arno River and the surrounding hills. The restaurant is on the 6th floor and occupies an area of about 900m², of which 500 is indoor and 400 outdoor. In the historical part of Florence, buildings normally have a maximum height of four floors, and with some exceptions have a 5th, but no private buildings have a 6th floor. To conceive of a restaurant up there is truly thinking outside the box.

There was a massive multi-year challenge in obtaining permission to build such a place from the local authorities.

The vision was to build the most spectacular food and beverage facilities in Florence: a place with spectacular views, a fine dining restaurant, and a sophisticated bar and private room for high-power events. In short a place that would become the 'talk of the town'.

The sides of the restaurant are made of glass and offer a stunning 360° panorama of Florence. It is open to hotel residents as well as non-residents and patronised by local Florentine guests. There is a separate all

purpose room that can accommodate up to 80 people and is used for weddings, cocktail parties, luncheons and dinners. There is a bar with its own terrace and also a cantinetta (wine cellar) which offers a choice of about 400 labels from different Italian and French regions. The bar serves mainly as a cocktail bar and is open from 12 noon to 2 am. The restaurant can accommodate about 50 guests indoors and an additional 40 outdoors.

Valentino and his team wanted to create something outside the classic restaurant template where there is only one tabletop and set up. At lunch time they use place mats that are different indoors from outdoors; and in the evening tablecloths are used with greyish candles, but on special occasions they are changed to chocolate brown. There is a complete change in mood from day to night.

They have three to four different types of table arrangements throughout the restaurant in order to add to the experience. The same applies to the chairs, which are arm chairs with cushions of different types, shapes and colours; basically there is no standardisation. The menu also changes and the service is attentive and stylish, without being too formal. The restaurant has a separate independent kitchen brigade that is fully dedicated to the restaurant, with its own chef who has more a restaurant rather than a hotel background. This is essential to guarantee exceptionally high standards.

In order to cater to the specific conditions on the sixth floor, there is an A la Carte kitchen for the preparation of hot, cold and pastry items which is almost fully independent from the restaurant and bar. Some of the very basic preparation, like fish, meat and vegetables, is done in the main kitchen on the ground floor. For the banqueting rooms (on the sixth floor) the food preparation is also done in the main kitchens on the ground floor, but by a different kitchen brigade with its own chef, and taken up plated by trolleys and served. There are two service lifts. At the moment of service, in order to avoid delays, one lift is blocked for the sole use of the sixth floor. The daily wine cellar, fully refrigerated, as well as the liquors and soft drinks' stores, is located in the restaurant on the sixth floor. The main beverage stores are in the basement.

The collateral and the menu cover have been developed to take into account the restaurant's close proximity to the Arno River, as well as Florence's handicraft tradition. The menu cover is like that of a book; the paper used is textured in a way that echoes the movement of the Arno's water when the wind is blowing.

The entrepreneurial instincts of Valentino, the Starwood corporate executive, has enabled him to work with each of (a) the city of Florence, (b) the brand champions, and (c) the staff, to dream of and then deliver processes that few others could.

Starwood decentralised its decision making. Starwood and Valentino had to be failure tolerant and had to learn to venture in new and different directions as the project proceeded. There had to be a culture in which Valentino and his team were purpose-driven.

Here is a marvellous example of how innovation can be fostered even within the largest of our industry giants.

Is your hotel business capable of fostering such innovation? I hope so.



Now under “older” management

You might have seen “Under New Management” but you won’t have seen this sign hanging over a hotel recently – but maybe you should have.

In Australia, I stayed in a hotel bearing a well-known brand. One day, I went to the concierge and asked him to recommend a restaurant in the area. The concierge was a person in his late 20s/early 30s. He “Googled” a well-known restaurant, called them, booked a table and then told me how to get there based on the online map.

As the table reservation was for the following day, I wandered down to take a look in advance. I couldn’t find the place at all so, when I got back at the hotel, I asked the concierge to confirm his directions. He did and was overheard by the Head Concierge, a man in his early 60s. Immediately, the boss said the online directions were wrong and told me how to get to the restaurant.

Gaining the knowledge

He told me that when he was a young concierge, he had been required to walk the city to get to know the restaurants, theatres and other sights. He’d passed this and other restaurants and had made a mental note of how to get there. He had been brought up in a pre-internet age and had acquired his experience in a different way.

Wikipedia and Google have a role to play in building up knowledge that can be then conveyed as advice – but there are times and places when such ‘knowledge’ is not comprehensive, accurate or useful. In such times, nothing replaces years of experience.

The secret life of the grown up brain

A recent book written and researched by Barbara Strauch states: “As we age, our brains power up, not down, and use more of themselves to solve problems.” Research shows that although we are not as quick as we were, and yes we do tend to lose our keys, we’re also reaping the benefits of neuro-plasticity (physical improvements to our grey matter courtesy of experience), myelin build up (which boosts processing power) and bilateralisation (the ability to use both sides of the brain at once when facing thorny problems).

These findings may have promising implications for the hiring and management of middle aged workers and experienced consultants such as those in the Hotel Solutions Partnership network.

Total eclipse of the moon....

Earlier, I wrote about the business lessons we gained from a recent stay with the Kalahari Bushmen.

One of the interesting aspects of their belief system concerns the total eclipse of the moon. We non-bushmen might expect the bushman to be afraid or worried during a total eclipse as the risks of survival may seem to suddenly increase.

Not at all. Eclipses have been happening for centuries and these experiences are handed down from generation to generation. Today's Bushmen simply say, "the moon will come back", as that's what their elders told them.

Perhaps we too should place greater reliance on our elders – business people, advisors and customers who have had multiple experiences – in our responses to business crises.



We hope you enjoyed reading this Masterclass and found it helpful.
If you have any questions, or would like further advice from
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