

Special Research Report:

Ramping up for the Future

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Lessons Learned in a Downturn:
Revenue Hides a Multitude of Sins
by Dr. Dan Mount

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FocusED

Year Eight ♦ Number Two ♦ 3rd Qtr. 2010

Crystal Clear Knowledge
That Impacts Success

Ramping up for the Future

By Mark Heymann



The focus of this edition is looking forward and ascertaining what organizations are planning to do as the industry begins to climb out of the downturn of the last couple of years. And for my

part, I have spent much time contemplating this topic from the perspective of someone with many vested years in the hospitality business.

You will find that we have interviewed industry executives and published their insightful comments here. As I was thinking about this issue of FocusED, the other day I read an interesting quote in the New York Times from Robert C. Pozen, Chairman of MFS Investment Management: "What's worrisome is that American business has gotten used to being a lot leaner, and it could take a while before they start hiring again." After pondering this comment, it occurred to me that it is actually the opposite scenario that is of concern to me, and I'll explain what I mean below.

No doubt our industry has gotten leaner. In fact even now we have lean teams in some organizations trying to wring

out more reductions in labor; but at the same time I have been in meetings where the discussion quickly moves to the fact that "We are running too lean, and can't deliver to our service standards," (and therefore have no time to look at new technology or improved ways of running our businesses).

So the challenge will be how do we not up-staff too quickly and "give away" some of the bottom line improvements that growth, even slow growth, will precipitate. I was recently at a meeting discussing some of UniFocus' technologies when I was asked if we used cost percentages to manage labor, a practice that led to overstaffing only a few years ago, when average revenue per unit outpaced increases in unit volume. If there is belief that the industry is too lean, or old methods of resource use are employed like utilizing percentages instead of real work content, costs will increase at a rate that will dissolve profits. With unit volume increasing faster than revenue per unit at this point in the recovery, I think that in looking at the future, the real issue will be what does "Ramping Up" really mean for our industry?

I don't think anyone believes that the industry can go back to the historical labor cost structures of the first half of the first decade of the new century. No doubt business has realized that costs must be more closely managed. I remember

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reading a study about three or five years ago that stated the industry had done a good job managing labor costs as the percent cost had remained stable over the prior few years. However, when you looked at the data unfortunately what one found was that ADR was increasing much faster than wage rates and overall volumes were increasing at a slower rate, so in essence good control would have seen a reduction in labor percent, not a flat line. And this is what we should be cautious of.

Essentially the industry needs to effectively manage operation costs in light of unit volume changes, not overall revenue changes or percentages. At the same time, some of the new operational paradigms need to be fully integrated into the business philosophy and culture. These are the business improvements that prompted hoteliers to look more closely at service levels and determine what was critical to the guest experience from a real value perception. Improvements in organizational structure should be perpetuated and adjustments only made when it is clear that resources are over-extended. Some of the cross utilization that has been effected during these more challenging times should not be dropped, but be promoted and continued. Likewise, new technology that facilitates planning and measurement needs to be more fully embraced to ensure that cost to demand and subsequent real work content is correctly balanced.

Back in the 80s when Quality Assurance was the hot topic and organizations were embracing varying approaches, we developed a workshop on Change Management. One of the opening remarks in that workshop related to why organizations change, and the industry has surely gone through significant change in the last two years. Change comes from two different directions. The first is visionary; a leader who has an inspirational or revealing view of the future therefore implements change to ensure that the organization can achieve the new vision.

The second and more prevalent reason for change is crisis; either in our ability to continue basic ongoing existence or simply from external business pressures, it forces organizational change. I think most would agree that many of the operational changes in the last couple of years were precipitated by this second source. The industry found itself in a state of crisis, began to adapt and has only recently begun recovering.

The challenge I believe we have today is whether our industry can utilize the crisis motivation that drove the change management (necessary for survival) and then convert that into a new vision for the industry. This new vision should continue to promote the guest experience and ensure that it is consistent with market positioning, while at the same time finding tools and methods to effectively balance financial and bottom line needs. Fixed costs should continue to be scrutinized and impacted as well as variable costs. So the key for the future will be a vision that maintains this vigilance while utilizing better methods of business planning and operational management to ensure the above noted balance is always attained. And the tools and methodologies must not only focus on the top line, but must make management's day to day tasks of service delivery, staff engagement and cost control priorities also.

To sum it all up, I think that Ramping Up for the future entails a new vision of operations that promotes a culture of progressive change and balance. And as new technologies and new customer demands become evident, these changes need to not only be reacted to, but proacted to. 

See you next time.



Mark Heymann
UniFocus Chairman & CEO

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Ramping up for the Future: Report from the Front Lines of the Hospitality Industry

Lately, when it comes to the hospitality industry, there has been no shortage of good news on the horizon—several major hotel corporations announced a return to profitability in the first quarter. According to the Bureau of Economic Analysis, spending on hotels and other accommodations increased by 11% during this period. And PricewaterhouseCoopers' recent U.S. lodging forecast expects continued recovery of demand, with the ability to increase room rates returning in 2011.

Best of all, according to Smith Travel Research (STR), the U.S. hotel industry is poised to end the year on a positive note (relatively speaking). STR projects 2010 occupancy to increase by 3.6% to 56.7%, ADR to the end of the year is expected to be virtually flat with a 0.6% decrease to US\$97.26, and revenue per available room (RevPAR) is forecast to rise 3.0% to US\$55.13.

Despite the good news, the Chicken Littles will always be with us accentuating the negative, but the reality is that nothing in this world is only black or white—and all things are cyclical in nature.

What are Hoteliers saying about Market Conditions and Best Practices?

In the latest industry study conducted by UniFocus, a number of hospitality professionals offered up their own assessment of present market conditions and what they have learned from last year. The purpose of the research



project was to capture the general attitude and to gain a better understanding of what's working and what's not working. The participants in this study represented a cross-section of property-level GM's and corporate C-level executives.

“We should be focused on growing our revenues and establishing consistent RevPAR growth. The industry will rebound since the economy is driven by business cycles....”

- John Cruz , Executive VP, Hotel Operations
PM Hospitality Strategies, Inc.

A number of data points were gathered and graphically depicted that seem to validate what industry analysts have been reporting thus far; in addition, UniFocus recorded many insightful comments from study participants which are presented here in this article for the first time. We have also included some remarks in the conclusion regarding property-level vs. “bird’s

eye view” perspectives.

Here is a small sampling of the comments that appear throughout the article:

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“The worst is mostly behind us,” said John Cruz, Executive VP, Hotel Operations for PM Hospitality Strategies, Inc. “We should be focused on growing our revenues and establishing consistent RevPAR growth. The industry will rebound since the economy is driven by business cycles.”

“The future will be better—we just need to be prepared for a slow steady increase and hold on to our quality of service and product,” said Tom Cappucci, GM for University Place Hotel & Conference Center and President of the International Association of Conference Centers.

“The hospitality industry is cyclical, but usually not to the extremes we have seen in the past 10 years,” said Dave Vogt, GM for Edith Macy Conference Center. “Start preparing for the next down cycle now by building up your reserves and make improvements in the next low demand phase.”



“Learn from the past. Ensure talent stays in place and keep the focus on productivity.”

– David Smiley, Hotel Director for Fisher Island Hotel & Resort

The Latest UniFocus Study: The Results

So what are hoteliers doing in the present market environment and how do they see the future of the industry? The results from the UniFocus study offer revealing insight about not only how hospitality professionals are operating under today’s circumstances, but what they anticipate going forward.

The most often repeated comment from research participants is how

important it is to learn from what they experienced in 2009. “Learn from the past,” said David Smiley, Hotel Director for Fisher Island Hotel & Resort. “Ensure talent stays in place and keep the focus on productivity.”

“The fantastic thing about the ‘big picture’ of the hospitality industry is that, overall, it provides products that remain in demand,” said Linda Hagen, GM for Coast Plaza Hotel & Suites. “The worst thing about it is that hospitality managers do not learn lessons from the past; e.g., in tough economic times, rate discounting does not produce the desired results and damages the business for the long term.”

The Learned Lessons from 2009

It is an unfortunate reality that all too frequently it is just not human nature to learn from the past. What usually happens when the economy rebounds is that consumer dollars start returning, champagne corks are popped and lessons learned are suddenly forgotten. That’s why any note of optimism should be tempered with measured doses of economic reality: boats are rising, but not all boats.

Even as industry icons and analysts alike warned last year that discounting rates was not a good solution to shrinking occupancy, hoteliers were seemingly forced

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Lessons Learned in a Downturn: *Revenue Hides a Multitude of Sins*

By Dr. Dan Mount


One of the good things about aging is that I can benefit from my previous experiences. I have now been through quite a few economic downturns and while each may have its unique characteristics, many things don't change from one to the other. Without fail, an economic downturn will lead hotel managers to reevaluate their costs, labor productivity, and amenities offered to guests. Managers will scrutinize each line item on a P&L statement to a level that has not been seen since, well, the last economic downturn. Productivities will be gained, staffing levels will be more efficient, and costs will be maintained—all with an emphasis on creating real value as perceived by the guest. And then the recovery comes along, revenues return, and the focus is lost. Revenue hides a multitude of sins.

The latest UniFocus industry study found that “managing labor more efficiently” is the second most cited item in response to “what are you doing differently in 2010?” What managers must take with them through the recovery is that this focus on efficiency, productivity and cost control should not diminish in the good times. All of the special measures taken over the last few years should be reconsidered, reevaluated, and reinforced during the rebound, so that whenever the question comes up again about what is being done differently that this item should no longer be a “most frequently cited item” in the years ahead. Rather, these measures will continue to enhance profit margins (that are sure to be affected by slower-recovering average rates).

The first most cited item in the UniFocus study as to what managers are doing differently in 2010 is “giving more attention to guests/meeting planners.” It does take a downturn to get us to recognize the value of each and every

guest. Let me replace one word in that sentence. It *shouldn't* take a downturn to get us to recognize the value of each and every guest. But unfortunately, the appreciation and recognition of each guest is, again, sometimes lost in periods of high occupancy. And then we miss them when they are gone.

Most every company has a frequent guest program, but I don't believe that is the kind of attention we are talking about above. Paying more attention to guests speaks more to creating loyal customers through relationships and satisfaction rather than through obligation to a frequent guest program. Relationship building is a skill, one that can be taught and encouraged. Relationship building is about reaching out to guests and meeting planners, reducing the number of different contact points throughout the hotel, and maintaining a customer focus through guest feedback and relationship management systems.

One GM that I spoke to (a few downturns ago) said he was going to write a welcome letter of acknowledgement for every returning guest, thanking them for their repeat stay. It was a form letter of course, different from the standard welcome letter, but with content that showed that the hotel realized and appreciated the fact that a guest had chosen to make a return visit. It is a simple practice, but also a vital one that starts a relationship that could reap rewards down the road. 



Dr. Dan Mount

“What managers must take with them through the recovery is that this focus on efficiency, productivity and cost control should not diminish in the good times...”

Dr. Daniel Mount, CHA is Associate Professor in the School of Hospitality Management at Penn State University and also an honored UniFocus Advisory Board member.



Ramping Up *(continued from page 4)*

to offer deals. At times it has seemed that everyone was trying to outdo each other in a frantic race to the bottom.

What UniFocus research reveals is that there is an interrelationship between rate integrity, customer loyalty and demographics. In other words, expanding your customer base and rewarding loyalty can help you maintain rate integrity. The fact that 29% of respondents consider broadening their customer base as being most important is indicative of their experience—that diversifying the business mix is a proven strategy for success during times when traditional sources of revenue have nearly evaporated.

Although it is true that axing rates will do more harm in the long run (since it is much harder to push up rates in the rebound), choices are very limited without exploring other options. These options include having a system for measuring and rewarding the loyalty of customers, and a strategy for finding new ones in other ponds; otherwise, hoteliers are hard pressed not to discount rates. Focusing on customer loyalty and demographics is one possible way to help you maintain rate integrity.



adding services and reducing costs. All of this is on the radar screen. “Hotels need to maintain rates but add extra amenities and benefits,” said Joel Muchnik, Rooms Division Manager, InterContinental, San Salvador. “Also it’s important to control costs, especially labor.”

Diversifying the Business Mix

The financial meltdown and “AIG effect” dramatically changed the playing field for hospitality organizations. Many corporations in multiple industry sectors either scaled back their events or eliminated them in response to political grandstanding in Washington, D.C. As if to make matters worse, consumers also scaled back travel plans due to massive layoffs. This double whammy forced many hotels and resorts to completely rethink the demographics of their customer base.

What some properties have done since last year is to cast out a much wider net to get business. They are exploring different untapped groups and knocking on doors they haven’t before. That often means capturing more local business, booking daytime events and doing a big push for catering operations. There have also been opportunities to target new vertical sectors for customized special events, such as pharmaceuticals, financial institutions and entertainment conglomerates.



In many markets it goes even further than that. It’s a juggling act of maintaining rates even as hoteliers are



2010: Back to the Basics

Sometimes the only thing that works is the tried and true, regardless of economic conditions. In our study results, 40% said that the top thing they're doing differently in 2010 is paying more attention to their guests and meeting planners. And 33% reported that more efficiently managing labor is on the top of their list. This would seem to indicate that workforce management and customer satisfaction should always be a high priority.

The reality is that these two important aspects of hospitality operations, efficient labor management and being more attentive to customers, are not mutually exclusive but actually depend upon each other. Because managing your workforce more efficiently means making sure you have the right staffing to ensure guests and meeting planners get the optimal amount of service.

Although the media is usually focused on the "big box" operators and following what the leading hotel brands are doing, it is also useful to see what the independents are doing, since they often can respond quicker to changes in market conditions and also typically have more skin in the game.



"Being an independent hotel, we have more flexibility in what we can do and how quick we can make changes happen," said Ron Nugent, GM for Atrium Hotel. "The down side to being an independent hotel is that we don't have the financial or operational support that your branded hotels have. In our industry when times are good, things like customer service and product start to fall through the cracks and people forget why they are in this type of industry, and for the most part, who really signs their paychecks. What is funny to watch are those companies who forgot what customer service is all about until the economy goes south or we have a disaster previously like 9/11.

"Now all of a sudden hospitality companies come out with new innovative incentives focused on customer service, pretending as though they've been your best friend all along," continued Nugent. "People in the hospitality industry must always remember during the good times and bad times that it's never good enough only to meet guest expectations, but you must always strive to exceed guest expectations."

What is the top thing you're doing differently in 2010?



Among Luxury Brands, Differentiation Counts

In contrast to the independents, who often strive to differentiate themselves from the larger operators, at the luxury brand level there has been a growing perception of homogeneity. So now is the time to make it a top priority to take market share in the rebound. “The luxury hotel chain that reestablishes itself the fastest at luxury standards will gain market share from customers who currently don’t see much of a difference between the brands, which is a significant amount,” said Sarah Santaella, Corporate Director of Quality Assurance, Ritz-Carlton.

Of course, it goes without saying that in order to achieve the goals cited above and gain market share, it is necessary to invest now in the newer technologies and systems designed to automate workforce management and HR/payroll, as well as measure and analytically correlate all facets of customer satisfaction. The alternative is to sit by and lose business to your competition. One hotelier put it succinctly: “Those who do not reinvest will suffer the consequences,” said Jean-Pierre Patay, Director of Operations for Hotel, Silver Legacy Resort Casino.

How to Motivate Associates in Today’s Market

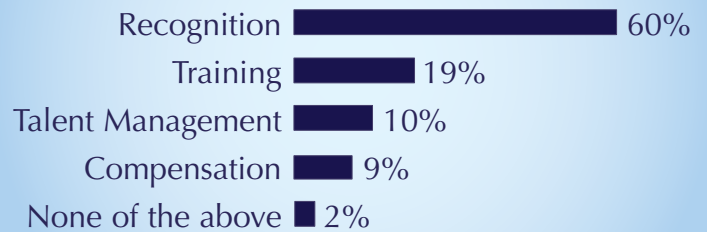
In the aftermath of significant layoffs last year in our industry, many organizations are struggling with how to motivate associates in today’s market environment. The single most important data point to come out of our research in this regard is that 60% of respondents find that recognition is the most effective form of motivation. Although it has long been felt that this plays a large role in keeping staff members engaged, what may seem surprising



is that in our survey results recognition eclipses other factors that have also long been thought of as being equally, if not more, important.

Of course, the reason why recognition is now on top is that economic circumstances have changed priorities. During good times, training and compensation seems to become more of a motivator; conversely, during economically challenging times, compensation goes down in importance while recognition moves up. This is particularly true when organizations have been forced to massively reduce head count; during these times, recognition (and communication) become more important.

What have you found most effective in motivating Associates?



In previous issues of FocusED, we have heard from many HR managers about what is working best to motivate and engage their employees. Meyer Jabara Hotels, for example, achieves positive results by encouraging their associates to become more involved and take initiative. When they are recognized for their hard work and involvement, not only do their employee satisfaction scores go up, but guest satisfaction scores also go up. Similarly, New Castle Hotels & Resorts have customized their surveys for their property managers and general managers, recognizing that they all have a unique set of needs, so that HR can give them what they need to be successful.



Combined 86% of Respondents Say Positive Indicators Up

The growing consensus among analysts and pundits alike is that business is coming back (though certainly the bad news keeps trickling in). According to Smith Travel Research (STR), lodging demand in the first quarter of 2010 increased 5.3% over the first quarter of 2009. This is the largest quarterly increase in hotel demand since the second quarter of 1989, and surpassed PKF-HR's forecast of a 2.6% gain. All of this is reflected in the UniFocus industry study.

During any economic downturn, the level of distress is typically geographically dispersed in varying degrees. Some areas are hit harder than others, and some spots may not be hit at all. When examining other parts of the world other than the US, the contrast is even more pronounced.

“Seventy-five percent of our customer base stretches from New Zealand to Japan, with triple digit growth in both Indonesia and China; 2010 is shaping into an incredible year for Ayana.”

- Charles De Foucault, GM for Ayana Resort

“We are based in Asia (Bali) so we have a different economy and customer base,” said Charles De Foucault, GM for Ayana Resort, which is managed by West Paces Hotel Group. “Seventy-five percent of our customer base stretches



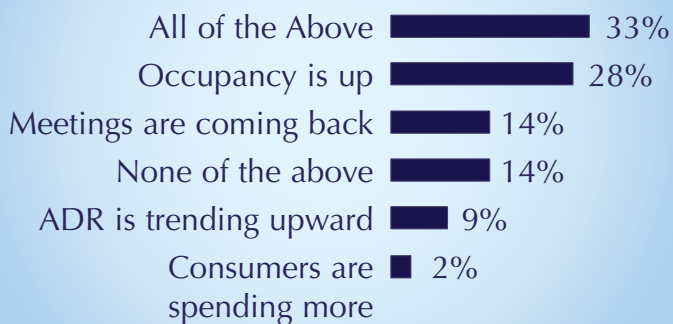
from New Zealand to Japan, with triple digit growth in both Indonesia and China; 2010 is shaping into an incredible year for Ayana.”

On the other hand, there are trouble spots in the world where things have changed rapidly for the worse. For example, the BP disaster has had a

negative impact on seasonal hotel bookings along the Gulf Coast and Florida; elsewhere, recent social and political upheaval has exacted a heavy toll on the hospitality industry and overall economy in Thailand.

“After the devastating economic impacts from recent protests in Bangkok, I believe the market will take six to nine months to get back to where we were in the first quarter of this year,” said Robert Lohrmann, Vice President and GM for J.W. Marriott Phuket Resort and Spa. “Also, certain markets will be clearly over-supplied in the shorter term, putting pressure on RevPAR growth potential and challenging labor supply.”

Which of the following have you noticed in your business?



What the Future Holds

The overwhelming sentiment of research respondents is a combined 93% who view 2012 from optimistic to cautiously optimistic. This assessment mirrors what many



industry analysts have been saying for some time now, and that is slowly being reflected in the financials. And as stated earlier, several major brands opened the year with improved profitability, setting the stage for more of a sustainable rebound in 2011 and 2012, with the caveat that the market does not become over-supplied as before.

What is your assessment for 2012?



“As long as new supply stays flat we should be in better shape in 2011 and beyond,” said Larry Bundy, GM for Sugar Land Marriott Town Square. For those hotel operators that experienced the brunt of the financial meltdown firsthand, they remember how everyone got into trouble with too much supply in the first place. “Don’t let our optimism give developers any ideas...because they don’t (want to) understand supply and demand principles,” said Volker Grady, GM for Coast Bastion Inn.

Despite the growing sense of optimism in the hospitality industry, there are still properties struggling under too much debt—and banks have no desire to get into the hotel business. In any case it is unlikely that we will see the same kind of business volume that we saw in 2007 anytime soon. “A lot of transactions and upheaval in the next 24 months,” predicts Jason Smith, GM for Oceanside Inn and Suites. Phil Anderson, GM for The Whiteface Lodge, agrees: “It will be a tough operating climate with many reluctant hotel own-

“As long as new supply stays flat we should be in better shape in 2011 and beyond.”

- Larry Bundy, GM for Sugar Land Marriott Town Square

ers from the financial community. Competition will be fierce with many operators trying to buy business vs. create value.”

“We will never go back to booking trends of the past,” said Michael McMahon, GM for Doubletree Palm Beach Garden. (Of course, you know what they say about “never say never”). Devin Marks, GM for Schweitzer Mountain Resort, believes that it will be “pain for a few more years at least.”

In the Final Analysis...

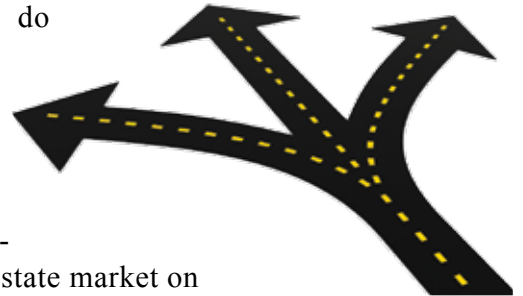
As all industry veterans will attest, the ability to accurately predict when an economic turning point will occur in the hospitality sector can be very difficult because of the nature of the busi-

ness. Not only do demand factors have an undisputed impact, but there is also the cyclical pattern of the real estate market on

the supply side. Unfortunately, because of the number of development projects in the pipeline when the financial crisis began in 2008, we are still seeing the long-term effects of oversupply rippling throughout the industry, with distressed assets and continued foreclosures.

There are other changes at work in the hospitality industry that are beyond the scope of this article, but should nevertheless be mentioned. “The

industry will become more costly to operate through the use of OTC pricing, said Dennis DiTinno, CEO for Liberte Management Group. “With the promotion of web



sites showing clients the best methods of reducing rental rates (while charging 20 to 35% commissions to do so), owners, management and rental companies will be harder hit to profit.”

Despite the difficult times we are in, the products and services that the hospitality industry provides will always be in demand (as one hotelier pointed out earlier). And it is still a cyclical business, even as some downturns are more pronounced than others and often mirror what is happening in the general economy. “I believe the hospitality industry will continue to be a barometer for the economy,” said Darryl Calloway, Director of Operations for Phoenix Park Hotel – Washington. “Occupancy will lag national employment improvements by six to eight months with rate improvement following in another six to eight months,” said Duane Winjum, GM for Quality Suites – The Royal Parc Suites.

Conclusion

The primary takeaway from the research results is that there are many lessons to be learned from 2009: discounting rates never works in the long-term; a better strategy is to diversify your customer demographics and work more on creating loyal guests and meeting planners. It’s also more important than ever to pay more attention to your customers, motivate your associates with recognition and manage your workforce more efficiently so that there is always the right staffing to optimize service.

As expected, there were some differences in perspective in how participants responded to questions according to their point-of-view. For example, corporate-level respondents rated efficient labor management higher (50%) than did property-level respondents (29.5%). Conversely, the latter viewed “more attention to guests”

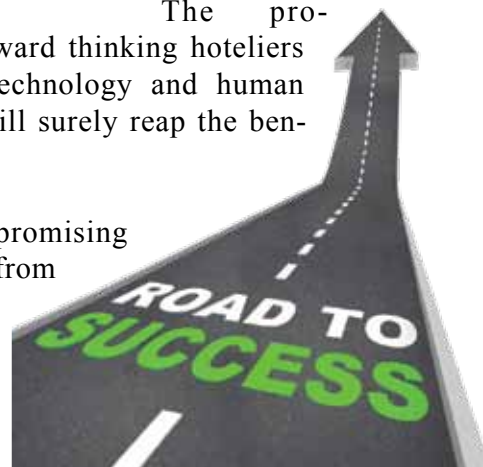


higher (43.2%) than did the former (28.6%). In terms of scope, the corporate perspective was much more aligned and unified, whereas the property perspective provided much more variation depending upon their individual experiences and environment.

Also noteworthy in the research study is that there is uniform consensus that now is the right time to reinvest to take advantage of the upswing in the market.

The progressive and forward thinking hoteliers who invest in technology and human resources now will surely reap the benefits later.

And the most promising feedback of all from the study is that, yes, business is coming back and occupancy is up! 📈



“Occupancy will lag national employment improvements by six to eight months.”
 - Duane Winjum, GM for Quality Suites
 The Royal Parc Suites





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