

LODGING

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Value Engineering: Not Just Cost Reduction

The timing is right to do a top-to-bottom examination of the organization to not only keep costs in line but to realize the true value of other expenditures.

By Mark Heymann

The lodging industry has been greatly affected by the economic downturn. As such, hoteliers have been forced to stabilize expenditures by doing such things as reducing or eliminating corporate trainings, decreasing capital purchases, and even carrying out personnel layoffs to weather the storm. With these actions, organizational impacts have been realized, but they need not be felt as if they exist in a vacuum and no value can be achieved from the changes.

With signs that the economy is close to the bottom, and that business growth could be seen in the near future, the timing is right for hoteliers to begin a process called value engineering to see what cost-cutting moves helped the organization and what ones were detrimental. Value engineering promotes the assessment of all costs, decisions, and investments in relation to the impact they have on organizational performance and value. This evaluation covers all aspects of operations and includes elements such as marketing decisions, timing of tasks completed, and value of training expenditures.

Here are some examples of value engineering:

Carpet Vacuuming: Many hotels and properties vacuum their hallways every day. When looking at this task from a value perspective, especially with reduced occupancy, the frequency can be adjusted with no negative impact on guest perception. The activity can be done every other day or some other weekly frequency.

Walk-In Refrigerators: How many need to operate with reduced volume? Condensing storage not only reduces the electricity expense but cleaning and maintenance costs as well. The above examples address cost reduction using a value assessment process. The other issues that value engineering can apply to, such as training, development, or marketing expenditures, fall under the category of investments although they are often thought of as costs. When considering these items from a cost perspective they are easily reduced, but if one thinks about them as business investments, the outcome can differentiate their value.

Training: This area is almost always the first to be cut in an economic downturn and then everyone wonders why the quality of service has gone down. Training is an investment and any reduction thereof should be carefully considered. When organizations are reducing headcount and there is concern about the remaining team members' attitudes, training can be a great way to uncover dissatisfaction and redirect energies towards quality service.

Marketing: Here is another perceived cost that is actually a critical investment, as long as the impact is being measured. When the economy is soft and demand is weak, marketing is critical to help create the competitive positioning to draw customers to hotels or resorts. Cutting marketing, when applying the concept of value engineering, is probably not the best consideration. Careful use of marketing dollars can create more value—not diminish it.

Some people reading this may think that putting value engineering into practice is simple, but an organization needs to take an in-depth look at its decisions with value creation in mind, not just cost reduction. There is still time in today's economic environment to get the process underway and look at investing in increasing customers and ensuring costs are being deployed that create value.

While cutting costs, capital expenditures, and personnel may have addressed immediate survival today, value engineering examines and ensures long-term stability for tomorrow. What is most effective about the process is that when the economy turns up, the same concepts that are applied show significant improvements in bottom line results as percent flow-through is increased. Additionally, by looking at activities in terms of value creation, all levels of the organization can participate and improve results. Cost-cutting then carries a different connotation, and value can be an easy concept to support company-wide.

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