



# Ask An Expert

## **A Cost Management Q&A with KSL Resorts' James Struthers**

**F**or expert advice on cost management strategies in the hospitality world, we turned to James Struthers. Struthers has served for more than a decade as CFO of KSL Resorts (KLSR), an independent, full-service hospitality management and asset management group with a specialty in operating large and complex independent resort properties. KSLR has a reputation for industry-leading margins in operating its businesses with multiple and diverse revenue streams. Prior to joining KSLR, Struthers was the CFO of London-based Orient-Express Hotels (now called Belmond), a U.S. public listed company that operates in more than 40 countries around the world.

**Q. How have your cost management practices evolved over the past five years?**

Technology has evolved significantly over the last five years. Systems such as labor management and purchasing have become more real time, interactive, and sophisticated. We have invested in these systems at our properties and have seen benefits in efficiency and cost savings.

**Q. What is your biggest hurdle when it comes to managing costs?**

In our experience, it is a question of the culture within a property. We have acquired resorts in the past that were hampered by a poor culture of cost control and accountability. In a large resort environment, it takes longer to change a culture than it does to put in a new system. However, once that change occurs, the results are very positive, including significant improvements in efficiency, reduced costs, and improved service scores. It is very important to keep reinforcing the new culture from a senior leadership level. Otherwise, poor practices will creep back in.

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**Q. How have you used technology to your advantage in controlling costs?**

By investing in up-to-date, real-time, sophisticated systems in labor management and procurement. Also, having access to detailed financials is imperative. This seems obvious, but we are sometimes surprised when we're acquiring a resort by the poor level of detail that the historic financials include regarding KPIs and/or level of cost detail.

**Q. What's the biggest mistake you've seen (or made) in managing costs?**

A lack of focus on costs and efficiency is the biggest mistake we see. Never take your eye off that ball.

**Q. How much emphasis have you put on managing labor as a way to improve your bottom line?**

Payroll and related costs are the largest single cost of the resorts that KSL Resorts manages. Labor typically accounts for 35 to 40% of total costs. A 10% improvement in efficiency within labor leads to significant savings, so it receives a lot of focus and attention within KSLR.

**Q. What is the most important change you've made in your approach to managing labor that has driven better bottom-line results?**

Implementing a labor management system at our properties and reviewing the accompanying, current labor management standards has been the most impactful change for us. In our view, the standards and system go hand in hand; a system with inappropriate standards is worthless. These standards also need to be challenged and tested on a regular basis. Secondly, we created a dedicated

role within finance at each property that is responsible for producing reports and analyses from the labor management system and organizing weekly labor meetings to review actual labor against forecast, future forecasts, and so on. While this is an analytical role, the person who takes it on must be able to communicate to managers within the organization and hold them accountable. This role is supported and reinforced by the general manager and the CFO joining the weekly reviews. Labor management should be part of the culture of the property and



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be reinforced relentlessly by leadership. This also extends to ensuring that salaried managers are set at an appropriate level; we achieve this through benchmarking analysis drawn from our history of operating.

### **Q. From a percentage standpoint, how much savings have you realized since making those changes?**

We typically see an improvement in efficiency, measured in overall hours of 5-10%, with the higher savings typically being achieved in newly acquired resorts.

### **Q. How do you manage to reduce costs without negatively impacting service?**

In our experience, being efficiently organized in terms of working practices and labor management improves service. Poor labor management practices and inefficiencies generally lead to poorer service levels. We also have a strong service culture throughout KSL Resorts. We train 4 Keys throughout

the organization for creating guests for life – warmth, personalization, awareness, and proactivity. We also are passionate about operating a talent-based organization. This means hiring the right people for the right role, identifying talent within the organization, and working hard to retain it. A talented person in the right roles will be more productive than someone who is in the wrong role.

### **Q. How do you manage to reduce costs without negatively impacting employee morale?**

There is a big difference between being efficient and being understaffed. The latter leads to team members being unable to complete their jobs, resulting in direct feedback from disgruntled guests. Nothing is worse for employee morale than this experience. We aim to have the right team members in the right place at the right time.

### **Q. What's your best advice for how to successfully control costs?**

Having a cost-control and efficiency culture with accountability throughout the property is fundamental. It is poor cost-control practice to prepare budgets and forecasts as a desktop exercise in the finance department, merely increasing costs by inflationary factors or some other Excel formula. Instead, managers need to take a zero-based workbook approach to putting together their budgets and be able to explain their actual costs and forecast.