



# Management Company Land Mines

We have the privilege of working with high-spirited entrepreneurs who are new to hospitality. Some are drawn by the challenge, some by the opportunity, and some arrive through a checklist that reads “hospitality” next. These entrepreneurs possess a “can do” attitude, fearless persistence, and an optimism that sometimes leads to the conclusion “I can do this myself (better) and I really don’t need this management company.”

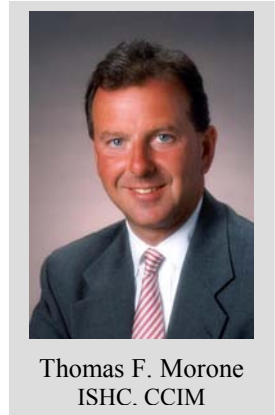
Because they are fearlessly independent, many of these entrepreneurs shun branded management companies and gravitate toward independent managers seeking maximum flexibility. When a management company is considered, entrepreneurs are usually dismayed about the conditions in the management contract. Inevitably, they conclude, “If I can terminate the agreement, it doesn’t matter who I hire.” While we too focus on termination, we believe it’s more important to hire the right company in the first place.

The hotel owner that enters into a management contract with the concept and attitude that “I can get rid of them if I don’t like them” is failing to understand the economic ramifications that a poor/mediocre manager can inflict on a hotel and the implications on profits. The following are issues to focus on when considering a management company.

- Goals of the Owner/Exit Strategy:** Begin with the end in mind and seek alignment of interests. Why am I buying (or building) this hotel and what is my exit strategy?
  - Buy or build, stabilize, sell or hold
  - Re-develop, reposition
  - Conversion to alternative use or major alteration
  - Short-term or long-term opportunity

Identify what you need and narrow the selection to the qualified candidates.
- Branded or Independent:** There are two issues here: (1) franchisors are insisting that owners use “approved” managers, and (2) the management skill set to operate a branded hotel and an independent hotel differ significantly. Generally, management companies that specialize in operating branded hotels will struggle in the independent environment. Similarly, management companies have trouble straddling types and classes of hotels such as luxury/budget/mid-priced, resort/urban, limited-service/full-service. Pick the company that meets your needs.
- Repositioning or Status Quo Operation:** There are significant challenges in repositioning a hotel.

If you have to make radical changes, do it with someone that’s done it before. There is a subset here of owners that acquire independent hotels with the intention of retaining existing management and repositioning the hotel. The appropriate question to ask is “Why didn’t that manager see the opportunity and do it before?” The answer probably indicates it’s time for change.



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- Expertise and Bench Strength:** Developers and buyers of hotels typically have staff to handle their non-hospitality portfolios, but are they the right staff to move into the hospitality arena? Know what you don’t know and seek a management company that has expertise and depth in areas where you are lacking.
- Track record:** Make sure the management company can actually do what they promise. You are dealing with salespersons that want your business. Don’t buy the smile and the promise. Check references, especially on hotels once managed that are no longer in portfolio.
- Total Cost of Doing Business:** Expect a wide range of fee quotes and understand the total cost of doing business with this management company, not just the base fee. A base management fee of 3% of revenue appears excessive when compared to a 2% fee, but the manager with lower fee may charge additionally for accounting, payroll, IT, national sales, and database management. Have the manager identify all specialties they provide under the contract and that are included in the fee quote and those which will be provided with an additional charge.
- Understand the Vocabulary:** There are no universally defined terms for pre-opening, technical services, and project management; services differ considerably among managers. Understand what specific services the managers are excluding in their definitions and the economic impact on your budget.

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