HOTEL & LEISURE ADVISORS

DEALING WITH THE ECONOMIC DOWNTURN: 10 IDEAS FOR HOTELS AND RESORTS

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What a difference a year makes. As a nation we find ourselves with rising unemployment, a declining housing market, and tight liquidity markets. As the financial crisis has become widespread, the hospitality industry has been similarly impacted with declining occupancy levels and slower or negative ADR growth. This article discusses 10 proactive strategies for hoteliers to adapt to the economic downturn and try to improve profitability in their hotels or resorts.

Occupancy and ADR Performance: Occupancy percentages have shown declines in the months of September and October 2008 in all segments of the hospitality industry and across all regions of the country. The following chart shows the year to date lodging performance through October 2008 as presented by Smith Travel Research.

Performance by Industry Segments
Year to Date - October 2008 vs October 2007

	Occupancy %			ADR			RevPAR		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Location									
Urban	69.1%	70.3%	-1.7%	$154.45	$147.64	4.6%	$106.72	$103.79	2.8%
Suburban	62.7%	65.2%	-3.8%	$93.46	$90.75	3.0%	$58.60	$59.17	-1.0%
Airport	68.7%	71.3%	-3.6%	$103.17	$100.10	3.1%	$70.88	$71.37	-0.7%
Interstate	57.5%	59.9%	-4.0%	$70.54	$67.35	4.7%	$40.56	$40.34	0.5%
Resort	64.7%	67.9%	-4.7%	$147.19	$144.77	1.7%	$95.23	$98.30	-3.1%
Small Metro/Town	57.9%	59.4%	-2.5%	$82.81	$79.98	3.5%	$47.95	$47.51	0.9%
Price									
Luxury	69.8%	72.5%	-3.7%	$169.64	$166.87	1.7%	$118.41	$120.98	-2.1%
Upscale	64.7%	67.0%	-3.4%	$117.19	$114.09	2.7%	$75.82	$76.44	-0.8%
Midprice	59.9%	62.2%	-3.7%	$84.94	$82.02	3.6%	$50.88	$51.02	-0.3%
Economy	57.1%	59.3%	-3.7%	$63.53	$61.63	3.1%	$36.28	$36.55	-0.7%
Budget	59.0%	60.7%	-2.8%	$52.02	$50.57	2.9%	$30.69	$30.70	0.0%
Total United States	62.8%	65.0%	-3.4%	$107.41	$104.09	3.2%	$67.45	$67.66	-0.3%

Source: Smith Travel Research

Although occupancy has declined through October year to date across all segments of the industry and all locations, ADR has increased. However, this trend has eroded in the months of September and October 2008 as occupancy declined sharply, dragging down the ADR of many segments. All segments have shown large declines in occupancy during the past two months, with the luxury segment and resort locations showing the sharpest declines.

We project that occupancy will decline nationwide for the third straight year in 2009 particularly in the first half of the year. We project that ADR will show only limited growth on a nationwide overall basis while it will show declines in the luxury and resort segments in 2009.

THE ADAPTIVE HOTELIER

Economic downturns require introspection but not despair. As hoteliers, we are always on the lookout for the best practices, the maximization of resources, and the highest return on our valued assets. In the harsh light of an economic slowdown we need to revisit our operations and our relationships so as to continue providing value to our guest while defending who we are.

Not all adaptations require cost cutting or downsizing. Although these are valuable tools, hoteliers do not want to jeopardize a hard earned reputation with loyal customers, lose a property's identity, or fail to deliver on the promises of a brand. Properties need to continually refine the product offering to match guest expectations, a concept that is even more poignant in tough economic times. We have identified a number of concepts which can aid in the successful navigation of these difficult times.

1. **Revenue Management**: As hotel managers we are charged with the responsibility of increasing not only occupancy but also total revenue of our properties. Applying systematic processes to the decision making effort will maximize the endeavor. The budget process is a valuable tool, but operating based on budget expectations in a volatile environment risks a gap with actual results that may yield unrealistic expectations. The use of forecasting tools and proper control of availability are invaluable to the overall health of the property. Understanding the value of distribution channel management and proper pricing while assessing the competitive position of the property within the market is crucial.

2. **Fixed vs. Variable Expenses:** When revenues decline, expenses which were originally thought of as fixed may become variable, particularly for underperforming properties. The evaluation and streamlining of operations should be an ongoing function of hotel management. As markets evolve properties need to adapt and provide the services which meet guest expectations while reducing or eliminating services which no longer meet guest needs.

3. **Rate Strategy:** Previous economic downturns have taught us that reducing rate in the face of occupancy decline does not attract more demand. The strategic reduction of rate within specific market segments may be necessary to maintain a competitive position, but such decisions must be weighed against long term strategies. The ability to regain from the discount price in the future can be a difficult proposition. Additionally, indiscriminate rate reductions may be perceived as a reduction in value, harming a hard earned reputation.

4. **Associates:** Employees can add extraordinary value to a hotel. Inadequate orientation, poor supervision, minimal recognition programs, and poor training describe a formula for the diminished value of a hotel. The most

impactful costs on a hotel's profit and loss statement are the costs associated with turnover. Screening and orientation help ensure that the hotel is hiring compatible individuals. Recognition programs (beyond employee of the month) provide associates with the sense of belonging and appreciation. Keeping associates informed of economic challenges is useful, particularly when asking them to cut back on hours or limit salary increases. Employee feedback from associate opinion surveys can provide plans of action by which the operation can improve and associates can be motivated.

5. **Ancillary Services:** Hotel management should continue to evaluate the operation of ancillary services, big and small. Restaurant operations, spas, indoor waterparks, and other operations need to be evaluated to determine if they meet the needs and expectations of the property's guests. Does the property's restaurant need to be open for breakfast or would a continental breakfast satisfy the guest expectations? For indoor waterpark resorts, the operation of the waterpark and spa may be curtailed on weekdays during the school year as families with children will not be available to utilize the facility. Independent operations may have more flexibility to implement the reduction of services than branded properties, but in all instances a careful evaluation of guest expectations must be undertaken to avoid the appearance of value lost to loyal guests.

6. **Real Estate Tax Assessments:** The assessment of real estate taxes can be based on a variety of methods. Organizations should be vigilant in monitoring how their real estate tax assessments were determined. The tax assessment may have been based on periods when rates and occupancy were stronger, thus overstating the income of current operations. It is also possible that the assessment of your hotel may be positioned at a higher rate than that of comparable properties in the market. If it can be determined that your real estate tax assessment is too high, consider contesting the assessment. A successful contention of a real estate tax assessment could provide tax relief for years into the future.

7. **Brand Standards:** Branded hotels generally outperform independent properties in most markets. The strength of a brand in part is based on the consistency and standards of the product regardless of marketplace. Keeping the brand fresh and current in the mind of the public is the expectation of each brand owner. With that expectation is a responsibility to keep the property consistent with the standards of the brand. However, in challenging economic times, complying with these standards can be difficult. If a new bedding package is part of the brand standard and should be installed by year-end, tough economic times may impose financial constraints that prohibit the property from complying with the standard. Communication with the franchisor with realistic timelines for the implementation of the brand standard may very well yield a favorable response and keep a valuable relationship intact.

8. **Renovations:** The development of capital replacement budgets and the setting aside of reserves for replacement are long term strategies that keep a property fresh and competitive in the marketplace. If an organization has reserves for replacement set aside, now may be a good time to implement needed renovations which will allow the property to emerge stronger when

the economy improves. The accelerated price of energy earlier this year suggests that renovations related to energy efficient technology would yield future returns. If the property is experiencing reduced occupancy, renovation disruptions will be minimized relative to the guest experience.

9. **Customer Identification:** An economic downturn is an opportune time to revisit the 80/20 rule – 80% of your business comes from 20% of your customers. Make sure your property provides the value these customers expect and, where possible, exceeds that expectation. Unfortunately these guests may be experiencing the same economic challenges your property is experiencing. However, staying in touch and exceeding their expectations when the opportunity presents itself will be rewarded when the guest is traveling regularly again. Exceeding guest expectations is rarely unrewarded. If some of the 20% need to suspend travel in these times, your relationship with them has provided insight into the needs of an industry, association, or group which can be transferred to other clients.

10. **Community Relations:** We define the hotel industry on a national and sometimes global stage, but for most properties it is the local market which provides the demand generators. Understanding the needs of businesses in a property's own back yard provides opportunity for long term relationships. Local chambers of commerce and economic development groups can provide information on the trends of local business, new business, and incentives to attract businesses. Convention and Visitors Bureaus have a wealth of information involving leisure-related demand, additions to supply within the region, and groups targeted for the market. Such community involvements allow hotel operators to be aware of opportunities which may arise or threats which need to be addressed.

CONCLUSION

Effective hotel management is a task which requires constant vigilance and adaptation to market conditions in good and bad times. The current economic downturn will present challenging operational and marketing opportunities for properties for some time. It is management's responsibility to evaluate their hotel and foster the changes and adjustments needed to exceed guests' expectations while minimizing the potential loss in revenue and preserving the bottom line for ownership.

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