



Hotel Owners Face New Reality in Updating Properties

Strategies To Manage Inflation and Production Challenges

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This time last year, I published an HNN column titled “[CapEx: Special Considerations for the COVID-19 Era](#)” and the subtitle was “Prepare for Inflation on Raw Materials, Logistics.”

Now that we are in March of 2022, we have experienced the greatest inflation overall in the last 40 years, the largest cost increases for most of our industry’s adult lifetime. In

2019, inflation was 2.3%, and in 2020, inflation was 1.4%. In 2021, inflation was 7%, which is the largest 12-month gain since 1982.



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Of course, like all “averages,” some items have increased a lot more, such as transportation costs, and some items a lot less. For furniture, fixtures and equipment being purchased in 2022, as an overall “FF&E average,” we are recommending owners increase their FF&E product-only budgets — i.e., excluding tax, freight, warehousing, install, etc. — approximately 10% over 2019 costs.

An equal, if not greater, challenge to executing a property-improvement plan — or “PIP” — today is the lead time for vendors to produce and ship product. All owners need to remove the former industry standard of “18-22” weeks lead time from their vocabulary.

There is no magic wand, no panacea, to prevent all the budget and schedule impacts that any FF&E investment will experience. However, with rising demand for travel and increasing interest in hotels from the copious amount of capital looking to invest in our industry, many PIPs

will be executed in this cycle. How does an owner mitigate these financial and schedule impacts on their project?

1. Engage Your Project Team Early

I have been saying this for 30-plus years, but it is truly essential now. The sooner the entire team is engaged, the greater the number of paths to success your project may enjoy. With early team engagement, the designer and purchaser can work as an “interior solutions team” to best mitigate the effects of cost and schedule increases.

For example, time is needed to thoroughly review the public space patterned carpet with the designer, vendor and installer, and to have the vendor perform a field verification. With the field verification done upfront, the purchasing team can secure a production lead time that allows the vendor to manufacture on specific width looms, which is tied to each unique pattern repeat and ideal carpet width.

This process of waste reduction can often reduce the quantity of carpet ordered by as much as 10%. While negotiating the cost per square yard is always important, having the time to identify the most efficient way to manufacture and install the carpet produces significant additional savings.

2. Separate Freight Costs From Product-Only Costs

Despite everyone’s attempt to “buy domestic,” a vast majority of the bedroom furniture used in hotels is still imported. When ordering case goods made outside the U.S., have your purchasing agent bid out and track the product cost and ocean freight as separate line items.

Up until the last 18 months of spiking container costs, the industry standard practice was to buy case goods “LDP” — or landed duty paid — a major port. We still always purchase FF&E products LDP a major port.

Being the legal importer of record is not something we ever recommend an owner pursuing. With the vendor routing the ocean freight, the freight is still taxable as part of the total cost of the product before landing in the U.S.

However, by tracking the ocean freight as a separate item broken out from the product cost, we are provided much better visibility to the fluctuations, both increases and decreases, in the container costs at the actual time of shipping.

3. Begin the Model Room Process Early

I always recommend at least one model room, and today, an owner should consider executing a model room the year prior to when production orders are needed. Whereas routing FF&E items for a model room via air freight was the norm pre-pandemic, no one wants to pay today's expedited air freight costs, for even the small quantity of model room items.

Next, have items in the model room sourced from a minimum of two vendors per specification and ideally from two countries of origin. As we have witnessed throughout the COVID-19 cycle, no one is smart enough to predict what part of the world will endure the next round of factory closures.

As we saw in the third and fourth quarters of 2021, one must be careful to not generalize and say "Asia" as Vietnam and China had very different COVID-19 factory closure schedules. Late last year, many factories in Vietnam were 95% closed while those in China were 95% open. We recently had to change a large case-goods order from Vietnam to China, staying with the same vendor but utilizing a different factory for the production run.

Overall, utilize the concepts above and the core fundamentals of any project:

- Negotiate your PIP with the brand before hiring anyone on your team to ensure the overall scope is confirmed before the design process starts.
- Have an established project scope, milestone schedule and budget for the entire PIP team to execute.
- Minimize the risk of displacement of revenue by allowing a slightly longer warehouse schedule so that items can arrive before they are needed, and do not liquidate the old items until the new items are received and are correct.
- Lead your PIP team with clarity and be definitive in your decision-making. Don't second-guess design decisions already made just because you see something new.
- This is a time to overcommunicate. Bad news does not get better with age. With early and continuous communication, any negative impacts can be mitigated.

I wish every owner a very successful PIP implementation.

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