



Ten Recession Survival Strategies for Hotel Owners

Hospitality Leaders Must Adjust to New Business, Leisure Travel Patterns

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What a difference a year has made for the hospitality industry. The recovery following the worst of the pandemic and a strong job market have boosted pent-up demand, particularly for leisure travel, sending hotel average daily rates to record highs.

Of course, there are still challenges: Business travel and corporate group demand has not returned to pre-pandemic levels, cost of goods have skyrocketed and, perhaps most importantly, the industry continues to face staffing shortages. In early July the American Hotel & Lodging Association released a survey that indicated that close to 100% of its members faced staffing challenges.



Looking forward, the Federal Reserve's efforts to combat inflation could result in a recession in the next 12 to 24 months. As consumer confidence falls and businesses continue to cut costs, there are growing concerns that the rebound in the industry may not be sustainable in 2023. Recessions typically result in a significant slowdown in consumer and business discretionary spending. If consumers begin to put off vacation plans, hotel owners could be faced with continued rising costs at the same time demand falls. Owners need to start planning for a potential downturn now.

Here are 10 strategies for hotel owners to consider in preparation for a recession.

1. Monitor Your Cash

In any distressed situation, cash is king. While projecting revenue in this very unpredictable environment is difficult, owners should create a cash-flow model with alternative scenarios of revenue and expense on at least a monthly basis for three years. If possible, the first 10 to 20 weeks of the cash flow should be modeled on a weekly basis. The cash-flow estimates should be based on best-effort assumptions of occupancy, room rates, food and beverage, and direct and indirect operating costs. Assumptions should be thoroughly documented. This model will not only allow

investors and management to monitor the business but be available for discussions with debt and equity capital providers. The model should be refreshed in real time as market information is received and hotel performance changes.



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2. Review Your Contracts and Mind Your Maturities

The rapid rise in interest rates has turned investment strategies upside down. Owners with near-term maturities or who expected to refinance acquisition debt may be in for a shock. Now is the time to reread all your loan agreements to review maturities, extension rights and prepayment penalties, as well as debt service coverage and loan-to-value covenants to develop a strategy for each of your loans. Take a fresh look at your other contracts including management, franchise, partnership operating agreements, leases and insurance policies. Know your rights and your obligations, notification and reporting requirements, definitions of default and remedies, performance thresholds and business interruption coverage. An incomplete understanding of your finance and legal situation may hurt your ability to develop and implement successful strategies to weather the storm.

3. Be Diligent with Operating Expenses

Most owners and operators reduced operating expenses at their hotels during the pandemic. As hotel demand rebounded, expense levels increased with the growth in revenue levels. By enforcing policies and procedures to review departmental and undistributed expenses on a monthly basis, profitability will result despite any future reduction in demand. Remember to challenge property tax amounts annually and reprice insurance policies as they come due. Reevaluate equipment and vehicle leases

as well as vendor pricing on high usage items. Consider outsourcing selected cost centers, including property accounting.

4. Don't Slash Marketing Costs

While cutting operating costs is imperative to surviving a potential slowdown, be selective when evaluating your marketing budget for cost savings opportunities. Carefully evaluate specific costs with an eye toward return on investment. Look at professional memberships, subscriptions and event spending before cutting your sales team, especially if the team members are productive. This is your chance to maintain and even gain market share by actively soliciting corporate and group accounts while your competitors are distracted. Encourage your sales team to be creative, while keeping costs low.

5. Reward Cross-Selling and Up-Selling by Employees

Cross-selling and upselling can increase profitability at a minimal cost and increase guest satisfaction. By implementing referral bonus programs for employees who upsell and cross-sell to hotel guests, employees will be motivated to promote facilities and services that would otherwise go unnoticed. One example of cross-selling hotel restaurants and bars to guests is to send out automated pre-stay emails and text messages to your guests prior to their arrival. Offer to add breakfast to their room rate for a discounted price or have a bottle of champagne or flowers in their room upon arrival.

6. Invest in Technology

The hotel industry as a whole has been slow to embrace technological advances. As guests continue to expect seamless connectivity without interruptions, hotel owners are continuing to invest in Wi-Fi infrastructure and other next-generation technology. Leveraging technology that optimizes operations and reduces costs to drive revenue and long-term growth can maximize productivity and increase customer loyalty. The number of software platforms available to the industry has increased exponentially. Keeping up to date on the latest developments in the digital space is imperative to staying relevant in an increasingly competitive environment.

7. Operate Each Department as a Stand-Alone Business

Manage hotel operations as if each department was a stand-alone business unit with its own profit-and-loss statement. Consider closing unprofitable food-and-beverage outlets or reducing hours of operation based on demand patterns. Consider repurposing underutilized meeting space or leasing out excess space to a local business. Keep abreast of changes in the marketplace including new hotel and restaurant supply as well as new business to the area that may impact demand patterns.

8. Implement Next-Generation Talent Models

To combat the labor shortage and help alleviate the rising cost of labor, hotel owners and operators should reevaluate their employment policies and adapt to a changing environment. By offering employees flexible schedules or same-day pay options, tuition reimbursement and child-care services, hoteliers may be able to attract a larger, more qualified employee pool. This, in turn, will increase guest satisfaction, loyalty and profitability.

9. Rethink the Property Improvement Plan (PIP)

Many brands are aggressively requiring that franchised hotels act on property improvement plans that were delayed due to the pandemic. Determining cost, timing and what items brands tend to negotiate on is important prior to negotiations. Consider swapping out expensive finishes and materials for more reasonably priced alternatives that could save significant cost and will be acceptable to the brand and the customer. Solicit revised bids from your providers. With the decline of new hotel development projects and capital improvement projects being delayed, contractors and vendors might be more inclined to reduce their costs.

10. Explore Repurposing Real Estate

The continued shortage of rental housing forces hotel owners to consider conducting a highest and best-use study that evaluates the location and physical attributes of the existing structure, supply of and demand for the prospective alternative property types in the local market, and the return on cost associated with a significant renovation and

repositioning of the property. Converting a high-cap-rate, difficult-to-finance hotel into a low-cap-rate multifamily property that is more easily financed may prove a good arbitrage for owners with the know-how, flexibility and capital to implement this strategy.

As events unfold, new patterns of business and leisure travel will evolve, and hospitality players must be nimble and creative to capture demand. Analyzing the specific circumstances of each property is essential to developing a customized and workable business strategy.

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