

Opinions

Back to the basics: The fundamentals of FF&E purchasing

08 JANUARY 2019 8:21 AM

Here's a look at the key elements of the FF&E purchasing process you should know before starting a CapEx project.



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As we are in a period of both record demand for furniture, fixtures and equipment and uncertainty in the global supply chain due to evolving world trade challenges, I feel it is important to go back and review the key elements of the FF&E purchasing process.

First, make sure every project is clearly defined and the project's goals are accurately communicated to all stakeholders.

I know it sounds obvious, but make sure everyone on the project team is working off the same schedule and budget, and any changes are communicated in a timely manner to every party. When there are new decisions to be made, or suggestions or revisions to the scope, it is beneficial to return to the foundational issues of scope, schedule, budget and stated project goal. Without this discipline, scope creep and the ensuing budget and schedule challenges will have a higher possibility of occurring.

Understand the budget

One of the initial questions that comes to purchasing firms such as Benjamin West is the request to establish a "cost per key" budget. As I have mentioned in past ISHC CapEx books, there is no single more dangerous question in terms of CapEx in our industry. Not only are there significant differences among assets that share a brand, but this question also pertains to the scope definition. Is the cost per key the cost of just the FF&E behind the guestroom door? Does it include the bathroom? What about the corridors? Is it the total amount spent on all areas, including all public spaces and food and beverage divided by the number of keys? Is it product only, or does it include any or all soft costs, such as project management, architectural, interior design, purchasing, freight, warehouse, demo and install costs? Does union labor need to be considered? What about operating supplies and equipment (OS&E)?

Which brings me to the next key item: universal definitions. Frankly, there are none for FF&E and OS&E, nor for "soft goods" or "full renovation." FF&E stands for furniture, fixtures and equipment. The largest cause for confusion is in the "E" as it may include for some owners equipment, such as door locks, phone systems, computer systems and commercial kitchen and laundry equipment. These items are not typically purchased by the FF&E firm. Some in the industry use the term "FF&A" and the "A" can stand for both accessories or art. OS&E, which stands for "operating supplies and equipment," mostly covers items that the guest uses, and that are not capital purchases. However, ice machines, and, for some owners and brands, even beds, banquet chairs, makeup mirrors and TVs, which most classify as FF&E, are in a firm's OS&E scope.

To make sense of every detail, and to ensure that a key item is neither left off nor being handled by two firms at once, every project needs a good responsibilities matrix, also known as a differentiation document or "Diff Doc." Do not start any project without one. It will clearly state who is responsible to specify, purchase and receive/install every item from seating to floor covering to hardwired lighting to bicycle racks and employee breakroom lockers.

Compare vendors

Another universal best practice involves model rooms. First, do at least one model room. At the model room review, ensure the purchasing agent is coming with production pricing for each vendor used. The cost of the one-off sample for the model room is not relevant to the project's overall budget, but in comparing different vendors, the cost for the production run often represents large changes to the budget. Everyone might agree that "vendor A" has the better desk lamp, but if the difference for the production run is \$20,000 and that money is needed for the better lounge chair, then maybe the desk lamp from "vendor B" with the less sophisticated finish but still great quality and light output will suffice. The model room is where the final value engineering process occurs.

Teams matter

When assembling your team, do not be tempted by low fees. We have all experienced the universal truth of "if it looks too good to be true, it probably is" in

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many aspects of life. Remember, even for a renovation with a relatively small scope, the shortest period of time you will be living with the project team is six to nine months, with 18-24 months being a more typical duration.

Also, do you really have any project at any asset that doesn't need to be delivered and installed on time, on budget and with an accurate, to the penny, accounting process? With all the states running low on revenue, they are looking at every potential sales tax dollar, so you must have a firm whose accounting process is geared to the highest-level NYSE public firms to handle sales tax accrual, tax on freight, tax on fee, general ledger depreciation coding, etc. For example, five states have no tax on freight, while 14 do not tax freight if a third-party logistics firm (not the vendor's own traffic department) is routing the shipment and 31 states tax the freight regardless of who is handling the routing. Today, a purchasing firm's accounting depth and experience is as important as its vendor relationships and negotiating ability.

Therefore, when it comes to systems and reporting, we are continually investing to improve both our purchasing and accounting system technology. However, at the end of the day, it is people and relationships that matter. It is still a people-to-people business, and humans make decisions. Humans, not systems, shave the 16-week lead time down to 12 weeks; humans lower the cost for the special project; humans turn the "no" into a "yes." Systems are great for reporting, but people make it happen. Be sure to hire the best people, supported by the best systems, to ensure success in every CapEx project during these challenging times.

This article is an excerpt from *ISHC CapEx 2018: A Study of Capital Expenditures in the Hotel Industry*. The book presents data on trends in capital expenditures by various hotel segments, including full service, select service and extended stay and will be available January 28th, 2019. Visit ishc.com/ishc-cap-ex/ for more information.

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