8 Sure-Fire Ways To Increase The Value of Your Hospitality Asset

by Larry Broughton, Founder & CEO, Broughton Hospitality

It was more than thirty years ago that my high school wrestling coach growled at me, "Pain Builds Character!" God bless him, this was meant to be an inspiring command during those difficult days leading up to a wrestling tournament, as I was suffering through muscle cramps, missed meals, weight loss, dehydration, and marathon practices.

A few years later, at two o'clock in the morning, I found myself face down in a cold and muddy hand-to-hand combat training pit in a mock-P.O.W. camp in the rural hills of North Carolina. I was in Special Forces training to become one of the U.S. Army's elite Green Berets. Sleep deprivation and very little food were commonplace during this first phase of the program. My fellow candidates and I were being pushed well beyond our physical and mental limits. We'd blown so far past those limits, in fact, that many of us were vomiting over the side of the hand-to-hand pit (because it was forbidden to do so inside the pit). Over our croaking and moans of pain, I can still hear our combatives instructor yelling, "Pain is weakness leaving your body!"

If my wrestling coach and Special Forces instructors were correct, given the pain that hotel owners and operators have gone through in recent years, we're ALL going to be freaking superheroes by the time our industry is back on track!

We can all agree that every hotelier's primary goal is to increase the value of our hospitality assets—even in the toughest economic times. To do so, of course, we need to grow profits. It's no secret that there are two ways to do this: increasing revenue and reducing expenses. The challenge for many, however, is knowing exactly how to do that.

You may ask, "Why is this so important?" And you may say, "I can't change the location of the hotel. The value of my hotel is at the whim of the market conditions." If this is your thinking, then please read on. Hotels are unlike any other business or real estate asset. Approximately two-thirds of the asset value is derived from the business that operates within the walls of the hotel. The biggest mistake hoteliers make is treating the asset like a passive business.

No matter the financial condition of your hotel or the relative strength of the lodging market, there are always ways to increase the value of your hospitality asset. The following 8 recommendations will absolutely increase hotel values in good times, bad times, and the times in between.

1. Hire for Motivation, Integrity and Capacity. The most valuable resource we should be investing in is that of our managers and team members. Our teams, more than any other single factor, have the most significant effect on the value of our hotel assets—because they are the ones actually operating the business (Remember my earlier comment that two-thirds of the value of your hotel comes from the business operating within the walls?). One of the biggest mistakes we make when hiring job candidates is to hire solely on the experience they possess. Dee Hock, the founder and former CEO of VISA International (the leading player in the credit card industry), taught me several years ago to place less emphasis on experience and more emphasis on integrity and motivation. Hire and promote first based on integrity, then motivation, and then capacity. Motivation without integrity is dangerous and is bound to fail. Without motivation to get things done and to learn, the capacity or ability for people to grow as the business grows is useless. Experience is easy to provide and quickly put to good use by people with the other qualities. Investing in proper hiring, training, and team member development will yield tremendous savings by having productive teams, minimal turnover, and loyal and dedicated individuals.

2. Embrace the new Internet-based (Cloud) computing technology. Similar to the shift from mainframe to client–server technology in the early 1980s, cloud computing allows users to abandon the need for expertise in and control over the technology infrastructure "in the cloud" that supports them. Cloud computing describes a new delivery model for IT services based on the Internet and typically involves the provision of scalable and often virtual resources as a service over the Internet. Some great examples include Google Apps (a replacement for Microsoft Office and the need for a server), M3 Hotel Accounting, SalesForce.com, and HotelSalesPro.com. There are even cost-effective cloud-based hotel property management systems available today. Upfront capital costs, ongoing operational costs, and upgrade costs (software and hardware) are significantly reduced, and the risk of data loss is eliminated. In the long run, the savings from moving all applications to cloud-based solutions will be significant, and you may find you no longer need an MIS department/vendor or any ongoing hardware capital upgrades.

3. Reconsider insurance pricing and options. Consider moving your workers' comp coverage into an insurance captive and shop for a new insurance broker who has YOUR best interest in mind. Captive insurance is essentially an "in-house" insurance company, often formed by a collection of like-minded businesses that share best practices in operations and safety. It's an alternative form of risk management that is becoming a more practical and popular means through which companies can protect themselves financially while having more control over how they are insured. Our company recognized a 20% reduction in workers' comp costs last year as part of a captive. Additionally, do not blindly accept the status quo from your insurance broker any longer. The most recent recession has changed the playing field for these folks. It is perfectly appropriate to ask our broker to disclose their commission and fee structure and let the broker know you'll be confirming the structure with the actual carriers to confirm. Fees and commissions are, indeed, negotiable.

4. Consider shopping for a new bank and payroll service. Shop around. Look at the smaller regional banks, as they tend not to charge any fees, while larger banks seem set in their old-school ways. Certainly, in some cases you'll be forced to stay with a specific bank due to mortgage requirements. Another area to reduce fees is found in payroll processing. There are several low-cost payroll organizations that offer the same services the big boys do at one-third the cost. We moved our payroll service to a smaller, out-of-state firm at a fraction of our former expense, while realizing a dramatic increase in responsiveness and proactive customer service.

5. Maximize market share by acting on accurate data: From Smith Travel Research Reports to Hotelligence and RateView reports; from Financial Statements using the Uniform System of Accounts to Cash Flow Projections; and from Daily Flash Reports to updating Guest Profiles, savvy hospitality professionals are improving market share and increasing profitability by aggressively mining data and taking corrective action. Yes, some of these reports are costly, but I encourage you to look at these tools as investments, not expenses. If you and your team take decisive action on the information they provide, the reports pay for themselves in very short order. Some data companies, like Smith Travel Research and PKF, offer free limited information reports, so do some research and expand your knowledge base. You may have heard the common adage that "knowledge is power." My apologies, but I disagree. If you gather tons of great information from these tools and reports, yet take no action, then the information is just useless trivia. In reviewing the operations of hotels our firm is about to acquire, we're often amazed at how many hotels subscribe to information services like STR or Hotelligence, but never actually open and review the reports, let alone take action on the information. No wonder the property is distressed. My mantra is "Action is power."

6. Experienced Management Company with a proven track record. It's crucial to have a professional operator running your hotel who has a proven track record of success and provides measurable results. Your property is a multi-million dollar asset—this is not an area to take shortcuts. Nor is it a do-it-yourself project. If you are a hotel owner and don't have the experience or resources to provide the full range of services of a management company, hire one. Superior management companies

will offer their member hotels discount pricing programs (at rates well below what single operators or small companies can negotiate) on products, supplies, amenities, and services that will go a long way in offsetting their fees. A good management company will run your hotel, but a great management company will increase the value of your hotel.

7. Never underestimate the power of the internet: A well-designed website with relevant content, metatags, and the right mix of flash and HTML will increase your bookings and keep guests on your site longer. The longer they look, the more likely they are to buy. Even if you own or operate a branded or franchised hotel, develop a proprietary website specifically for your property. You can sell the property's features and benefits better than anyone else (but be sure to use the brand's booking engine to take reservations). Online review forums like TripAdvisor, Yelp, and social networking platforms (Facebook, YouTube, Twitter, etc.) are the new standard in word-of-mouth advertising. Both good and bad news travel at the click of a mouse in today's high-tech age. Be militant about reading reviews on your property—even if it's painful. If you don't know what your guests are saying about you, then you're out of touch. Since news travels so fast and so far today, be certain that the guest experience is at its highest level, guest complaints are taken care of expeditiously, and that online reviews and blogs are monitored on a consistent basis and addressed accordingly. Tools like Google Alerts can assist you in this effort.

8. Preventative Maintenance Program. A good preventative maintenance program will extend the life of the physical plant and all of the mechanical equipment within the hotel to prevent unexpected repair expenditures and premature replacement of major equipment requiring additional capital investment. A well-maintained physical plant is a key indicator in determining the value of a hotel and is at the top of the list during due diligence and appraisals, as this is where huge looming expenses tend to hide.

As owners, operators, and managers, we have more control over the value of our properties than most people think. So, go back, review the list above, and identify the one idea that you can begin implementing today. Of course, there are dozens of additional ways to expand the profits and increase the value of your asset, so contact me for an expanded list of tips and techniques. Now, go take action!

ABOUT THE AUTHOR:

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