HVS

Let's Talk About Cost Controls

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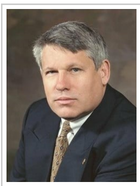

Managing expenses is among the most important things a manager does to achieve an owner's goals of profit and value. (I never say it is the most important because everyone knows, "Nothing happens until somebody sells something." But, it is close!) The most central elements of effective expense management are proactive rather than reactive.

The first step in expense management is budgeting, and zero-based budgeting is best. Sure, one can look at many historical expenses, anticipate what they are likely to be in the future and put that in the budget. While that gets the budget done, it does not actually help the team to understand the expense and then manage the expense. One needs to look at the historical expense, analyze what its components are, decide what one can do to improve it and finally, implement those changes.

As an example, the cost of guest room cleaning supplies and laundry supplies do not consist solely of the purchase price. The cost actually includes theft, loss, spillage, improper dilution and dispensing, and improper use. Improper use of laundry supplies might include running less than full loads in a washer or having it set for the wrong fabric. In the case of room cleaning supplies, it might include overuse of chemicals or not wearing out a sponge before discarding it.

Clearly then, as part of the budgeting process, each component of an expense needs to be examined with an eye on how it can be reduced. In many cases, individual steps can be changed, while in other cases, it may be a common thread through an entire department. These may be attitudinal, process, training, or physical layout issues.

In most cases, individual items, once identified, are easily correctable. While there will be some that require additional effort such as changes in work culture or CapEx, these steps are generally worthwhile and set a tone for how important expense management is at every level.

Process and training issues are sometimes more difficult and time consuming to identify and address. A good example of a process issue may be the number of minutes per occupied room it takes Room Attendants to clean rooms.

First, one needs to insure that they are measuring accurately and that the goal is achievable.

I know of a hotel manager that swears his room cleaning time is 35 minutes but the calculations all come out to just under 60. The problem was that the statistics being tracked included the time to clean extensive public spaces and wash banquet linen. He didn't really have any understanding of his staff's time in the guest room and so couldn't measure performance. If we have a hotel that is spread out, very old or all-suite, we add several minutes to the maximum time standard in order to accommodate these unique features of the hotel that affect the time.

The next step is to examine the process by which Room Attendants start their day, take breaks and finish their day along with how cleaning supplies and linen are stocked.

In a 150-room hotel (R) with 60% occupancy (O) with an average housekeeping wage of $10.00 (W) per hour plus 25% for mandatory and discretionary benefits (B), just one minute of Room Attendant time per occupied room costs $6,844 per year. (The formula is R x O x 365 x W x 1.B / 60). Clearly saving five or ten minutes can add up to a lot of money, so why not examine every step that a Room Attendant makes?

Why not have the linen folded in the laundry so it fits on the carts without refolding? Why not have the supplies delivered directly to the carts while the Room Attendants are at lunch and again at the end of the day?

Summary

A hotel manager's most important tasks are making money for the owner and maintaining the asset. Satisfied guests and motivated employees are among the tools, but cost controls are also critical components of the formula.

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One person or a team can stock all the carts identically much more quickly than a group of individuals doing it their own way at their own pace, including returning for forgotten items after standing around chatting for a minute or two.

In many cases, supplies are being delivered to linen closets and shelved. Subsequently, the items have to be moved from the shelf to the cart. Let's eliminate a step.

When the Room Attendant finally gets to a room, every step should be carefully scripted and wasted motion eliminated. Why not dust the headboard, artwork, bedside tables and lights while standing next to the bed to adjust the bedspread and the pillows? Simply keep a dust rag in their pocket. Every step and motion should be examined with input from the Housekeeper and several of the hotel's best Room Attendants.

As a zero-based budget is developed, various operational plans evolve for every department from Front Office to Engineering.

For instance, if part of the budget assumptions are that the Average Daily Rate (ADR) is going to be in-creased by upselling and suggestive selling, then a training plan has to be created for the employees who will be making the sales effort.

Another example is that if HVAC maintenance costs can be reduced by doing more of the work on this equipment by the hotel staff rather than contractors, then either somebody needs to be trained or additional staff hired and trained.

The important thing is that the budget must be detailed in its assumptions and in its implementation. If certain staffing assumptions are used for a restaurant, then the person doing the staff scheduling for that restaurant must verify that those assumptions are being applied each week when the restaurant's schedule is prepared.

As a Resident Manager about 35 years ago, I worked for a General Manager who had an interesting system to insure that he did not go over budget on many items that were not inventoried. (Obviously this was before spreadsheets like VisiCalc or Lotus 1-2-3, let alone Excel!) Much like a “check book” expense log many hotels use today, he recorded the total budget for each budget item for the month at the top of a pad of paper and then subtract what he spent during the month for each budget item as he purchased it. The unique element to his approach was that he would never allow himself to spend more than 80% of budget until he was certain he was going to achieve the revenue goals associated with that expense. Then, even if he saw that the revenue goals would be achieved, before he purchased any more, he would double check to see if we still needed it at all. Usually, we didn't! Computerized accounting and inventory systems would now make this system even easier.

Common practices which can have a negative impact on expenses include standing orders and allowing sales people from food suppliers to have access to your store rooms. Other opportunities that are generally overlooked are the ones management does not believe can change easily and sometimes consider Fixed Expenses. As an example, examine how many phone lines of various types there are and how they are configured. This is particularly true now that there is almost no telephone use by guests. The old stand-by formulas don’t apply anymore. The same applies to internet connections which have become even more important.

Other expenses, sometimes considered fixed by managers, are credit card agreements. Don't just consider the discount rate, but also chargeback and authorization fees. Review service contracts, insurance policies (coverage, deductibles, and basis), bank charges, data processing expense, parking contracts, waste removal, and anything having to do with energy. (Maybe **HVS Parking** or **HVS Energy & Sustainability** can help with these reviews.)

Review your real estate taxes and those of other area properties, particularly in the same county, each year. Look for openings where other properties' assessments were reduced. (Yes, there is an **HVS Property Tax** division!)

In summary, no detail should be considered too small when budgeting and analyzing expenses. The process is time-consuming and very detailed but the benefits can be enormous.

If you feel your hotel, or portfolio, may be able to realize expense savings without reducing the guest experience; contact us about a **Hotel Performance Analysis (HPA).**

About HVS Asset Management – Newport

HVS Asset Management – Newport is a division of HVS, the largest hospitality consulting firm in the world.

The team advises clients on the market, the operations, and the financial management of a hotel or resort to improve both cash flow and value and achieve any other owner goals. Whether the client is the owner of the property, a lender, or another interested party, the client's goals are the team's goals.

HVS Asset Management – Newport looks for opportunities to maximize cash flow while maintaining or improving the market position, improves the physical attributes of the hotel or resort, and carefully monitors the operator (at an individual and company level) to optimize the performance and maintenance of the asset.

About Kirby D. Payne

Kirby D. Payne, CHA, President of HVS Hotel Management and HVS Asset Management - Newport, has over 40 years of hotel operations, consulting, and development experience. He was the 2002 Chair of the American Hotel & Lodging Association (AH&LA) and a former Director of the National Restaurant Association. He is a frequent speaker and author. His hotel experience began as a four-year-old living in a hotel on the Amazon River in Brazil, which was managed by his father for InterContinental Hotels. He never lived in a house until he was 13. Payne previously served on the Certification Commission of the AH&LA's Educational Institute. HVS Hotel Management has operated hotels throughout the United States and has served a multiplicity of clients, including lenders, airports and other government entities, and individual investors. HVS Asset Management - Newport oversees upscale and luxury hotels on behalf of clients who use branded management and major independent management companies. Both companies undertake various consulting assignments including, but not limited to, development consulting, brand and management company selections and contract negotiations, Hotel Performance Analysis and litigation support (expert witness). Mr. Payne is frequently appointed as a Receiver for hotels and resorts. Contact Kirby at +1 (401) 625-5016 or .