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MARKET REPORT

# The Benefits of a Small Hotel Management Company

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The benefits of a large hotel management company may seem obvious. However, when choosing a management company for your hotel, consider looking beyond the obvious and evaluating whether a more personalized and strategic approach is appropriate for your hotel investment goals. This article outlines the benefits of selecting a small hotel management company for the day-to-day operation of your hotel.

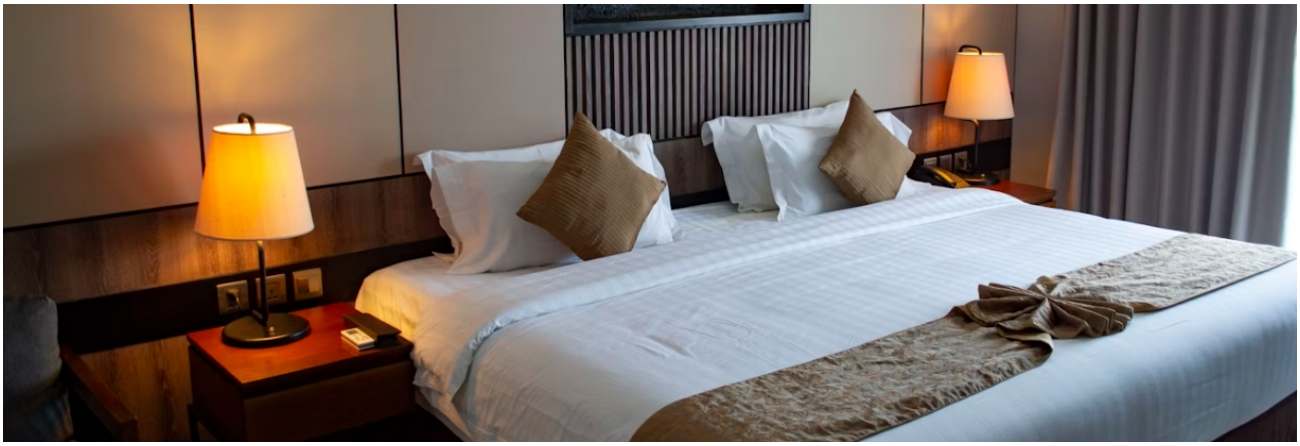
The last few years have been fraught with mergers and acquisitions in the hotel management space. Companies have grown larger and less personalized, more streamlined, increasingly technologically advanced, and geographically agnostic. The benefits of a large management company may seem obvious: efficiency and economies of scale, technology and innovation, specialized knowledge and resources, and distribution channel advantages, among others. However, when choosing a management company for your hotel, I encourage you to look beyond the seemingly obvious and evaluate whether a more personalized and strategic approach is appropriate for your hotel real estate investment goals. This article outlines the benefits of selecting a small management company for the day-to-day operation of your hotel.

## How Do You Know if You Need to Hire a Hotel Management Company?

One of the most obvious reasons for hiring a management company or changing operators is the struggling performance of your hotel asset. Indicators of struggling performance include unexplained falling revenue or income levels, lack of increasing revenues as compared with the market and industry, increases in poor guest satisfaction scores and online reviews, and/or high employee turnover. Inadequate performance is not only problematic in the short term but can also lead to declines in the asset's marketability, reputation, and even market value. Hiring the right operator can help rectify issues and maximize the hotel's performance as a real estate investment.

Another reason to seek a third-party operator is simply that these firms are qualified and employees have years of hospitality operational experience. These firms know how to negotiate with brands, implement revenue-management strategies, hire talented staff, market the asset, and manage expenses on a granular level, to name just a few areas of expertise. Hiring a management company in many cases can be more cost-effective than managing the property in-house as a result of this experience and the benefits of leveraging industry relationships. Hiring a third-party operator also helps release time and resources of the owner that could be used to focus on other business priorities.

Finally, hiring a hotel management company is crucial as a first-time hotel developer or as an existing owner looking to reposition an asset. The lack of experience in this space can lead to costly mistakes that can be easily avoided by seeking the advice and guidance of a qualified operator. Have you ever considered where the laundry storage room should be placed relative to the elevators? Or how the back-of-the-house office space is designed to maximize guest-facing and revenue-generating areas in the front of the house? Have you thought about whether your hotel should be designed with connecting rooms or showers only in the bathrooms, and whether the hotel should feature an in-house laundry operation versus outsourcing laundry? Hotel operators have decades of experience and market intelligence that can help navigate these and many other important considerations.



## What Are the Major Differentiators to Consider When Evaluating the Qualifications and Benefits of a Small Hotel Management Firm?

The single greatest advantage to working with a small or boutique hotel management company is the firm's ability to be nimble. With a smaller company, decisions can be made quickly. The leadership structure of a smaller company is likely flatter, allowing for agility and flexibility in everything from staffing decisions to contract terms. Changes can be implemented without having to cut through red tape, and owners often have direct contact with the company's decision makers. Proactive solutions do not get bogged down in the bureaucracy of a large firm, allowing problems to be addressed swiftly and decisively.

A terrific example of this is the hotel management agreement. Most firms look to secure agreements for 5-, 10-, or even 15-year terms as a standard. This provides the manager with financial security and assurance for a significant duration of time, putting less pressure on them to maximize the hotel's performance. Smaller companies can step out of the industry standards and work with the owner to create more compelling terms. Shorter termination clauses of 30, 60, or 90 days after an initial period are becoming more common and are sometimes used by smaller firms to assure owners that if expectations aren't being met or exceeded by the operator, the commitment risk is relatively low. This further protects the owner from costly legal and termination fees if it is determined that the relationship with the third-party operator is no longer aligned with the owner's priorities. Additionally, the shorter term offered by a smaller firm can keep the company vigilant and its operational decisions more at the forefront since the guarantee of the agreement is relatively vulnerable.

Along these lines, termination fees, performance thresholds, and/or incentive fees are more likely to be negotiable items. Smaller firms are also less likely to mandate standardization across their portfolio of managed hotels. If your property is unbranded, you don't have to worry that a certain brand of bed linens or hand soap will be mandated across the board; the autonomy of those decisions lies with the ownership group in collaboration with the operator.

In that vein, ongoing and regular dialogue with clients is a major differentiator of small management firms. Keeping the owner involved to their desired degree ensures that near- and long-term goals are actively implemented in collaborative partnership, instead of in a vacuum. Reporting on hotel performance can happen on a daily basis, if needed, and questions on performance can be answered in real time.

A small management company has the ability to provide a more personalized and hands-on approach with regard to the day-to-day management of your hotel asset. Not only are you more likely to have a dedicated account manager who knows the local market, the company's smaller client list allows it to focus wholly on your priorities. One of the most important components of this is the design and implementation of a strategic marketing plan. A smaller management company will conduct thorough market research and leverage local connections to help maximize your hotel's exposure to its target guest base. The firm will help you better evaluate the competitive landscape and identify opportunities and services gaps given the intimate understanding of the local market. A smaller company with more focused experience will undoubtedly be aware of changes in market dynamics that could affect the operation of its client's hotel. Examples include the opening of a new hotel, renovations of competitive properties, travel freezes at local firms, corporate expansions, and new meeting and group demand sources, to name a few.

I experienced one such example at the end of 2019 when a small hotel management firm in the Pacific Northwest leveraged its relationship with a tech company that had significant exposure to business operations in China. This relationship allowed the hotel management company to better prepare for the impacts of COVID-19 on the global travel industry. This firm was able to warn its owners, beef up reserves, and weather the storm of the pandemic with better preparation than many other operators.




Another often overlooked and misunderstood benefit of using a boutique hotel management company is its relatively lower overhead and cost of doing business. Many smaller companies have employees working remotely, eliminating the

cost of renting office space. These companies often do not have multiple shared service fees to help deflect their corporate overhead. Boutique firms have leaner teams, passing those savings on to the owner in terms of competitive contract fees and terms. Despite streamlined operational budgets, quality of service and guest experience are not compromised—and, in fact, are strengthened through a higher level of interaction with the property.

Although each hotel management contract is different, one of the most significant components of the agreement is the fee. Hotel management fees can range from 2% to 5% of gross rooms revenue depending on the size, quality, and type of hotel. A provision for an incentive fee is typically included regardless of the size of the hotel and is usually tied to the excess after meeting the budget. Smaller companies have the ability to negotiate more creatively, with possible fees including a monthly minimum fee as a percentage of the property's total revenue or a tiered rate as a percentage of revenue.

Finally, it is important to understand how the firm is integrated into the greater hospitality industry. What is the experience of the principles and owners? Is the firm associated with an advisory council to help lead the industry's ever-changing trends? Do members of the firm attend industry events and provide thought leadership on industry topics? Is the company part of a larger firm, allowing collaboration and synergies with other advisory services? These are just some of the considerations that can help a small firm stand out in a sea of large-scale operators.

The ultimate decision regarding the management company to hire for your hotel takes a tremendous amount of research and time. Not all firms are created equally, and hotel assets vary significantly; there is no "one-size-fits-all" solution. Understanding the benefits of a small or boutique firm is crucial when determining the best option for your hotel investment. As an owner, you have specific goals for your hotel investment that may include market reputation, employee retention and professional advancement, and/or community impact, in addition to maximizing return on investment. Your management company should understand your goals intimately and work with you on these differentiators to achieve success.

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