

Three Steps of Effective Asset Management: Assessment, Implementation and Measurement

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The approach to asset management has evolved over the years based on ever-changing market conditions and hotel owners' needs.

To contribute value, asset managers must provide focused and results-oriented asset oversight that translates into quantifiable value to a hotel owner. In order to accomplish this, asset managers must approach an engagement in three basic steps. First, an initial evaluation of the present situation regarding a hotel's operations and performance should be conducted to gain knowledge of the operation and its strengths and weaknesses. While some assets do require a wide-lens approach, with the asset managers becoming heavily involved in all operational areas, simultaneously, many assets have hot spots that can be quickly converted into areas of opportunity. These areas of quick results are identified during the evaluation period. A list of the actions typically taken during the initial assessment is contained later in this article. Second, armed with the knowledge gained during the initial assessment, the asset manager should develop a recommended strategic plan of action and scope of work that prioritize areas of focus and include a recommended length of engagement. Third, after the initiative has begun the asset manager should closely monitor progress and report ongoing activities and success to hotel ownership through written reports, verbal communications, and regularly scheduled meetings.

Determination of Scope

The recommended scope and length of an asset management engagement should be determined after the completion of the initial operational evaluation, not before. Strengths and weaknesses within the operation are identified during the initial assessment and the asset manager should provide a hotel owner with a focused, cost-effective plan and approach to improve results based on current conditions. No different than a doctor performing a physical on a patient, this exercise provides a thorough understanding of how the asset is currently being managed—and how it is performing compared to its competitive set, and to other assets of similar size and quality level.

Customization of Priorities and Actions

As noted, the information obtained during the initial assessment is utilized to prioritize and focus ongoing asset management efforts in specific operational areas to provide maximum impact to the asset's performance. What is found will also bear heavily on the scope of work and length of engagement the asset manager may recommend to the hotel's owner. The more traditional, long-term asset management agreements of the past are now, more frequently, being replaced by shorter, results-driven contracts that provide the hotel owner with specific, targeted initiatives to improve cash flow and value. As an example, during the initial step of a recent engagement, our firm determined that a hotel was excessively sacrificing rate to drive occupancy. Using HVS's proprietary fixed-variable model we determined that the property's profitability would be more greatly enhanced by selectively reconfiguring the rate structure—raising rates and slightly depressing occupancy, replacing current management's philosophy of decreasing rates to increase occupancy. As this example illustrates, the scrutiny of yield management and other management practices can quickly identify fundamental missteps that can be quickly changed to improve results during the initial operational assessment period.

During the initial operational evaluation the following actions are generally taken to assess the current situation.

Summary

To add value, asset managers must provide asset oversight that translates into quantifiable value to a hotel owner. This article presents three basic steps that asset managers should follow in order to provide effective asset management.

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1. Evaluate and analyze annual and year-to-date financial statements, Smith Travel STR Reports, the sales and marketing plan, the budget, capital improvement schedules, franchise inspections (if applicable), repeat-guest data and guest satisfaction information, employee turnover and satisfaction data, and the property's organizational chart.
2. Conduct an on-site inspection of the hotel, during which the public areas, retail space, back-of-the-house space, a sampling of all guestroom types, spa facilities, food and beverage and meeting facilities, and other facilities and amenities that are contained within and around the hotel are evaluated.
3. Interview key management staff members to assess and determine their range of responsibilities, experience levels, and the procedures they employ to carry out their various functions at the hotel.
4. Review guest comments, guest satisfaction information, and repeat-guest information.
5. Assess employee turnover and satisfaction data.
6. Analyze the financial performance of the operating departments within the hotel to assess the expenses and profitability level of each department and compare this information to the financial results of similar operations of the same size and quality level.
7. Assess the sales and marketing and public relations efforts being put forth on behalf of the hotel.
8. Evaluate pricing strategies and yield-management practices to determine if the hotel is properly positioned and is maximizing its top-line revenues.
9. Inspect all hotels in the asset's competitive set to compare quality and amenity differences.
10. Compare the overall financial performance to the financial performance of hotels of similar size, configuration, and quality.

Continually Provide Value

Asset managers must demonstrate that they are not another layer of expense, but that they contribute quantifiable value to a hotel owner. Through the three steps described, asset managers can demonstrate to a hotel owner that their activities contribute quantifiable value to a hotel. In addition to traditional management oversight, asset management firms provide strategic planning advice, acquisition and disposition services, tax planning, and alternative-use evaluations. No two assets are alike and the specific wants and needs of hotel owners vary greatly. Through a well-thought-out approach involving ownership, the asset manager, and the on-site management team, a hotel's optimum performance can be achieved.

About Mark C. Lynn



Based in San Francisco, MARK LYNN oversees the wide range of hotel asset management, strategic planning, development and operational consulting services provided by the firm. Mr. Lynn has more than 30 years of hotel industry experience and has been involved in the development and management of more than 100 hotel projects with an asset value exceeding \$2 billion. Mr. Lynn holds a BSBA degree from Xavier University in Cincinnati, Ohio and is a member of HAMA (Hospitality Asset Managers Association). Mr. Lynn can be contacted at: 100 Bush Street Suite 750 San Francisco, CA 94104 +1 (415) 268.0357 tel. +1 (415) 869.0516 fax