



A Quick Tour for Hotel Clients in Project Development Stages

FEASIBILITY STUDY - THE BASICS

A Feasibility Study should answer some basic questions for you as a developer. Often due to a variety of silent drivers these questions are not addressed correctly in the initial phase of a development. Why? Often those involved have their own priorities which may not be beneficial for the hotel project.

What do you need to ask?

- Is this project financially feasible?
- Is there proof that this concept and budget will work?
- Will someone finance my project based on my financial projections?

There are other factors that need to be raised and discussed depending on the location of the project which involve exit strategy, alternate uses, tax implications, labor availability and others. In addition there may be other things such as environmental, geological and cultural issues.

A feasibility study should include:

- An Executive Summary
- Proposed Project Model (size, category, financing, facilities etc).
- Regional Data & Comments
- Markets/Growth Drivers/Access
- Situation Analysis/Competition (local &/or global)
- Historical Trends (occupancy, rate, market mix)
- Supply changes (past & future)
- Demand changes
- Management & Branding Cost Assumptions
- Development & Construction/Renovation Cost estimates
- Projections (10 Years)
- Projected Market Segments & Pricing
- Conclusion & Rationale
- Conditions for Conclusions



Bottom line

- If the report shows the project will work, the end report will emphasize the conditions that are critical to its success.
- If the report shows the project will not work, the reasoning will be provided. This is what you pay for – the truth. For instance, if the ROI did not reach your desired level, you will save heaps of money by not going ahead.

We provide you with a cost-effective initial study to see if there is more than a good chance that your concept, ideas and figures will work. If our study shows the project will work, we will then use this study to work with a specialist firm that specialize in preparing comprehensive reports targeted at financing institutions. If however our study shows the project will not work, you would have avoided huge sums of fees in going directly to consulting firms and finance brokers.

SPACE PLANNING AND DESIGN - THE BASICS

If you as the hotel developer or owner do not know where your "Center" is, maybe you do not know you should have one. What is it? It is that little space that a couple or a single guy would feel most comfortable being in when no one else is around.

At a Resort, may be it is that spot in the pool area or at the terrace bar. At a City Hotel, the lobby bar, the restaurants all need a favorite and comfortable center spot, the best homey feel place in the house. Like that old lounge in the den you go to on a raining winter night to watch Sunday Night Football with your dog.

Too many developers, operators and designers make impatient and non-carefully thought-out decisions on layouts and use of space. Extraordinary attention to details is needed for key small space planning where this couple and the single guy will spend hours. These areas form the long lasting consolidated impression of many clients. They are keys to the property's success, especially in a Resort where customers hang around longer.



We have a talent for space planning that ONLY hospitality people who have worked in hotel spaces for years would have. This is a skill that is critical to a project's success and can save you heaps of money in **effective utilization or reduction** of building space.

Do architects have this skill in planning? No. Do interior designers? No. But **together with a 'user'**, that is, the hotelier, who utilizes the space day in and day out, hence knows what he is talking about, this is a winning solution.

We have the ability to think through carefully the impression that you will give to the customer who frequents your hotel in the off season, in a quiet period, a down-time. We recognize that not 100% of the space will be used 100% of the time, and at down times, we need to be aware of the ambience that is lost when the space is empty of clients.

Most of all, without the eye-for-details input that can only originate from experienced hoteliers, architects and interior designers will inevitably fall short on **practicality**.

Reflection: over 10 years ago, when I was GM of a soon-to-be Four Seasons at Kuda Huraa in the Maldives, I spent the first weeks designing each restaurant table, the width, the length, the thickness and the height, not forgetting the lighting, the wine display, the condiment container, the sugar, the creamer, all had to be measured and their movements anticipated. My Executive Chef and I sat in each seat and anticipated the view, the waiters' traffic patterns and the face contact with other clients. It was not an accident that we had 80% occupancy in the first 8 months after opening and was acknowledged as one of the best 10 small hotels in the world by Conde Nast Traveler magazine as early as in the first year.

With our experience and insights as hoteliers we can help developers save tons of money in formulating the build-out program, and owners will reap the profit down the road out of effective space planning. If you are building a high-end boutique product then our thinking and eye-for-details are paramount to the success of your project.



OPENING A HOTEL FOR THE FIRST TIME

Most learn from mistakes, I have learned heaps. The result now though, is that opening a hotel to me is the most enjoyable, but not exactly stress free. Opening a hotel anywhere is an uncompromising challenge with risks at every turn and most with enormous cost implications.

Consider first the areas that are implicated:

- Equity & Debt Financing
- Architecture, Landscaping & Design
- Graphic Design
- Engineering & Special Consultants
- Construction & Finishing
- Recruitment & Training
- Sales, Marketing & Public Relations
- Management Structure
- Utilities
- Inspections & Approvals
- Furniture, Fixtures & Equipment
- Purchasing & Storage
- Operating Supplies & Consumables
- Budgets & Cash flow
- Finance & Accounting
- Safety & Security
- Concepts, Standards, Performance
- Education and Training
- Community Relations

And these are just the basics!

Effective openings require Instinct, Timing, Experience, Flexibility and Adaptability.



Typically, for instance, the Owner, the General Contractor, the Banker, the Sales Convention Organizer or Tour Operator and the Project Manager, all want the property to open before it is ready or even complete. Our mission is to try to calculate when to open, months in advance. Sometimes million of dollars a week are at risk and perhaps tens of thousands a month in addition if staff hiring and marketing start too early.

We will help you avoid all the opening pitfalls. Proven and tested, our experience in opening or re-launching hotels almost all took place in ‘hardship’ locations, as reflected below:

Opening and Re-Opening Experiences in a Nutshell

As F&B Manager in Shanghai in 1989 I opened 6 restaurant outlets, and that was when everyone rode bicycles and we are only the 3rd major hotel to open in the city. Now Shanghai has over 100 Hotels!

In Siem Reap, Cambodia, in 1992, in opening the first boutique resort hotel in the country after Pol Pot, we trained over a hundred young and old villagers who could not tell time or use a nail clipper, while the hotel and training school were surrounded by guards with AK47s!

Following Cambodia, we took over a failing hotel of 350 rooms in southern Thailand, repositioned it, retrained the staff, broaden the market base and re-launched the hotel; profit shot up by 45% in the same year.

On Lizard Island, Australia, a refurbishment program during my tenure as General Manager not only reaped financial result but won us the accolade of being named one of the world’s top 20 International Hideaways by Andrew Harper’s Q-Club, and in the same year awarded 2nd place among ‘Best Small Hotels’ in the world, and 3rd place for ‘Best Hotels in Australia’ by Travel & Leisure magazine.

We successfully repositioned and re-opened the Kuda Huraa resort in The Republic of Maldives, which resulted in a highly profitable business entity, and exceeded all bottom-line expectations by the owning company, with a net operating profit of 60% of gross revenue. Furthermore, the resort was named by CondeNast Traveler magazine as one of the



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top ten small resorts in the world in 1998. Our efforts enabled the resort to be accepted by the Four Season Hotels and Resorts group.

For the Le Meridian hotel group in Malawi, Africa, I partially shut down and renovated the flagship hotel in 14 weeks, employing and coordinating consultants and builders from South Africa. The result was increased room rates and broader customer base, with cost reduction EBITAD increased by 76% over a two-year period. Pay back in just 3 years.

In Canada we produced three feasibility studies for three different types of resorts hotels all of which did not seem to meet the ROI expectations for the owner. This experience has given me a real feel for figures!

In Kabul, Afghanistan, I led a hotel pre-opening team while supporting the project manager and the development team in remodeling a pre-war jewel with the aim to create a super deluxe hotel for His Highness The Aga Khan. Not easy! You can imagine the challenges, risks and constraints we faced everyday.

And more recently in Dominical, Costa Rica, where we now live, we took on the role to open the first luxury beachfront boutique villa condo resort in the south Pacific coast. Unfortunately but wisely we had to resign from it after presenting the owners with the full development budget which had previously not been done with any feasibility report. The lesson to be learnt was, do not try to build a 5 star product with a 4 star budget with 3 star real estate prices. The project is still unfortunately as we left it, half built out.



ONE WAY TO MAKE A PROFIT WITH YOUR HOTEL

The formula is $Q(P-V) = F + \text{Profit}$

- How many units do I have to sell at what Price to cover my Fixed Costs and achieve my targeted Profit?
- Q, What quantity need we sell to achieve the desired Profit?
- P, Price, what is my average sales Price for this item
- V, Variable Costs, what is the Variable Cost per item sold?
- F, Fixed Expenses, what are the total Fixed Costs that need to be paid regardless of how many units sold

True experience is needed to successfully apply this simple equation within the hotel business environment.

- Variable Costs - How to identify the true variable costs and what % of fixed costs is variable. Do we have too many or too few fixed costs? What systems need to be in place to ensure variability? What can reduce the variable costs?
- Fixed Expenses - What are the actual exact fixed expenses? Should more be fixed or more variable?
- Price - How has the price been determined, used price engineering? One needs to. Should prices be inched up or down, is the price reflective of a correct positioning in the market?
- Quantity - How do we get from present sold units to the numbers desired
- What strategies need to be changed? What ideas need to be dumped? What new ideas need to be brought in, what old ones discarded? What management practices need to be reviewed and reborn?

Experience counts in being able to accurately define the correct figures and in being able to correctly devise business strategies to achieve the desired financial goals. We build road maps so we know where we are going, and how we are going to get there. This by the way is part of the annual business plan. Then the real work starts. Implementation!



HOW TO CHOOSE A MANAGEMENT COMPANY

The decision to be a Franchise, Chain Affiliated or Independent Hotel is one of the most critical decisions in a hotel investment

For many hotels the costs associated with purchasing and maintaining a franchise represents the second largest (after labor) expense category. Cost of a typical franchise or chain affiliation program representing six to eight percent or more of revenue. Hotel industry in general is bringing approximately 22-24 cents of every revenue dollar to the net income.

Franchise and /or affiliation fees can potentially account for the equivalent of over 25% of a hotel's bottom line. Affiliation does not ensure successful financial performance. Certain types of hotels, depending upon their market positioning and segmentation, perform much better as independents. Franchise and chain affiliation decisions where and still are in part driven by lending requirements. To secure financing a property's having access to a reservation system and the need for many hotels to tie into national marketing and promotional programs to generate business. There are several alternatives for a hotel to tie into. Over eighty different alternatives are available to an owner.

Decision Methodology

Different affiliation programs have the potential to generate greatly varying types and volumes of business for different types of hotels. The cost of a franchise or affiliation can also vary substantially depending upon the scope of services and benefits provided. The cost versus benefits of affiliation can vary dramatically. To evaluate the costs versus benefits of various affiliation programs one needs to assess the potential of different affiliation options to generate incremental (or business that a hotel could not otherwise generate on its own) business for a particular hotel.



Evaluating the Potential of a Franchise to Generate Incremental Business

Different market segments or customer profiles often require very different marketing strategies and different sales and promotional programs. Begin with a solid understanding of the hotel's business mix, planned or actual. Keep in mind the concept of "incremental" business, or the need to focus on the potential of an affiliation to generate business that a hotel couldn't otherwise generate on its own.

Determining the Costs of Affiliation

- Initiation, royalty, marketing and reservation fees. Complying with system standards, providing amenities, signage, costs of utilizing proprietary software etc.
- Promoting the affiliation Franchisors and chain organizations implement programs and/or require standards that meet system needs and make economic sense at a national level.

National programs and standards may not always meet the needs or make economic sense for an individual property in the system. For example, food and beverage requirements (such as hours of operation, menu offerings etc.) or levels of service (such as voice mail messaging, amenity offerings, etc) may not be necessary given a particular hotel's positioning, customer profile, and/or competitive market.

Cost versus benefits

- Volume or percentage of business generated by the program's reservation center.

Different franchise and chain organizations may have very different ways of accounting for reservations (i.e. call volume, conversions, cancellations, gross vs. net bookings etc.) activity. It thus can be very difficult to draw conclusions about the performance of one franchise/chain versus another based on these criteria only.



Assessing the bottom-line versus top-line impact of franchise or affiliation fees

The cost of a franchise or affiliation has traditionally been measured in terms of its top-line impact represented as a percentage of revenue. While this ratio is a reasonable approach for comparing the "absolute" costs of one franchise or affiliation program versus another, it does not take into account the fact that the profitability of different types of hotels can vary substantially. Thus, the impact of franchise or affiliation fees can vary dramatically when fees are evaluated from a bottom versus top line perspective.

For example, for a hotel with a 35% net income margin, a 7% franchise fee would be the equivalent of about 20% of the bottom line; for a hotel with a 15% net income margin, however, a 7% franchise fee would be the equivalent of almost 50% of the bottom line !

Estimating the net effective or actual cost of business generated by a franchise or affiliation

The net effective cost is simply the ratio of franchise fees to the percentage or volume of business actually generated by the franchisor or chain organization.

For example, again assuming a 7% fee, for a hotel where the franchisor or chain accounts for approximately 35% of a hotels business then the net effective or actual cost of business generated by the franchisor or chain would be 20% (i.e. 7% fee equivalent to 20% of 35%).

In sharp contrast for a another hotel also paying a 7% fee, where the franchisor or chain only accounts for approximately 15% of the hotels business, the net effective or actual cost of business generated by the franchisor or chain would be almost 50%.

Estimating a "break-even" point that gives one an idea of the volume of incremental business needed to support the cost of a specific franchise or affiliation. Here the objective is to estimate the volume of business that would have to be generated to "break even", or to just cover the cost of a franchise or affiliation.



The Independent alternative: Reviewing the merits of being an "independent" versus a franchise or affiliated hotel

Numerous reservation system alternatives for independent hotels as well as third party direct sales and/or trade show representation services and stand alone advertising and public relations expertise are available to independent hotels.

Certain types of hotels can potentially perform better as independents. In particular upper end unique "one-of-a-kind" hotels, specialty boutique style hotels and resorts with a strong destination.

It is difficult for chains to develop and implement national positioning, pricing and promotional strategies and programs that meet the specific needs of all properties within their systems.

Independent hotel can afford an owner greater flexibility in positioning a specific hotel against its competition.

An independent hotel, a property has the opportunity to "customize" its marketing program to promote its uniqueness, specific strengths and special points of differentiation and to specifically target where and how marketing and promotional dollars are spent.

Independent positioning allows for greater flexibility in establishing rates. It is very difficult for a franchisor or chain organization (in particular for chains having more than one product brand) to develop national pricing strategies that address the needs and objectives of all hotels within their systems.

We can advise you during the important decision-making process on how to assess and choose a management company, on brand selection or on determining whether to go independent. We will of course be interested in putting our management proposal forward for your consideration for independent management, and advising you of the benefits of such. We pride ourselves on offering great value for our services and ultimately our skills and expertise would most benefit independent operations.