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# Driving revenue the crux of asset management

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## Story Highlights

- The best asset managers are those who can drive revenue enhancement.
- Brands are increasing pushing fees and other costs on owners as a way to drive profits on their own balance sheets.
- Revenue management is a constant challenge for owners and operators.

ATLANTA—Expense reduction is only the price of entry. For any asset manager worth his or her salt, the real needle mover is revenue enhancement, according to a panel at last month's International Society of Hospitality Consultants' 2012 Annual Conference.

But pushing profits is often easier said than done—especially in the branded hotel environment, where franchisors will only go so far within their own box, said Wayne Williams, principal with asset management company Warnick + Company.

"It really is up to you to move the brands outside of some of their comfort zones in order to get results," he said.

During the development of an upper-upscale property in Phoenix, for example, the brand set up its standard operating schedule and wanted to bring in a director of sales and marketing only 18 months in advance of the hotel's opening. But Williams, recognizing the market's challenging operating environment, pushed to onboard the DOSM 40 months in advance. The effort paid off, and the property opened with thousands of more rooms on the books than it would have otherwise.

Third-party management, too, can potentially thwart the out-of-the-box thinking required to enhance revenue, the panel of asset managers agreed.

"It's not just working with the brands, it's even (working with) third-party management companies as well. We have a responsibility to ownership to drive the bottom line. We're really looking under every rock and looking outside the box," said Matt Arrants, managing director with wealth management firm Pinnacle Advisory Group.

To effect that change, Arrants and his team start from the ground up, developing relationships with the third-party managers' on-property personnel. After getting buy-in from them, Pinnacle will approach third-party management to discuss innovative strategies to drive revenue.

In either case, Williams stressed the importance of a collaborative approach. Addressing problems in a confrontational tone only makes matters worse, he said.

**Cutting costs**
While revenue enhancement remains the goal, the panelists said cost reduction is crucial to the discipline of asset management. And often that means pushing back against the ever-rising tide of brand fees.

"Right now probably the biggest expense creep that we're facing is the brands themselves. It is just becoming blatant that they're looking at their fees as profit," Williams said. "It's becoming a real issue."

The first step to combat the problem is to shine a light on it, he added. If a brand suddenly starts charging for a new service, it is the asset manager's job to investigate: What does the new service accomplish? Is it necessary to the financial well-being of the property? And is it worth the return on investment?

Some brands will try to cover it up, Williams said. Others will be more transparent. In either case, the asset manager must protect the owner from these costs, he said.

In addition to extra fees and costs, brands also are beginning to aggressively push deferred maintenance on owners.

When times were tough in 2009, brands were working together, Arrants said

"And now as the industry performance has improved, we're seeing a real shift," he said. "They're starting to be a little less likely to work with us on deferred maintenance and are requiring a lot more investment to keep the assets up."

"This was entirely to be expected, and it's probably going to continue for the next several years," said Peter Keim, senior VP of Capital Hotel Management.

The efforts are warranted in the majority of instances, he said. If owners want to stay ahead of—or, at the very least, in—the game, they have to continually improve their offerings.

But there's a limit to where you can go, Keim said. A brand refresh just for the sake of a refresh is not in the best interest of owners if it does nothing to enhance revenue.

Some brands or third-party managers will conduct ROI analyses for these projects, he said. But more often than not, assets managers are left to the task themselves.

**Recurring challenges in revenue management**
When asked how good of a job operators are doing at revenue management, Arrants didn't mince words. "Never good enough," he said.

"They sometimes tend to take the easy way out and are very quick at not managing rate," Keim said. "Getting that rate to come back up from previous levels that we enjoyed in 2006, 2007 and so forth has become a real challenge."

The first thing operators do in the face of decreasing demand is drop rates, he said. "I'm not 100% convinced that's a decent strategy at all. … To think that rate alone is going to drive occupancy I think is a false belief. It's a slippery slope. Once you drop it, you can't get it back."

Williams said the discipline has become too broad and formulaic. Regional revenue managers are making pricing decisions for entire markets as opposed to an individual hotel. "We are constantly questioning the decisions that are being made," he said.

Nowhere is that more true than in the presence of "slotting," in which brands constrain a property's rate strategy so as not to interfere with that of a nearby hotel within the same brand family.

"The prevention of it is by simply knowing that you're representing the owner, and what that hotel is capable of generating is what you're going to get whether it violates the brand brackets or not," Williams said.

Arrants advised attendees to bring a compelling argument to the brand using empirical evidence. "To work together, we just have to lay out a really long and in-depth examination of the situation, and they'll eventually come around."