

## Hallmarks of underperforming hotels & resorts

In the back of the minds of hotel and resort developers and investors is always the concern that the sad experiences of those before them may rise up again and be an unfortunate reality for themselves. I've been directly exposed to many happy experiences, and many more sad experiences. That is not necessarily to say that sad experiences outnumber happy expenses; rather that owners don't tend to ring a management consultant like me when they are having a happy experience. So I guess it would be fair to say that there might be many others better qualified than me to outline the hallmarks of successful hotels and resorts, and that content might include emphasis on the warm and fuzzy elements like customer service, guest experiences and destination attributes. My experiences and therefore my content today is more narrowly defined.

Most distressed hotels and resorts are handicapped in the first place because they are **poorly conceived**. There never was any reasonable evidence to confirm that there was ever a market for the developed product from the outset. In my part of the world – Queensland Australia, we have been almost exclusively reliant on apartment resorts, or condotels to add to accommodation infrastructure over the past couple of decades because it has been near impossible (and not particularly attractive) for traditional “one line ownership” hotels to be developed. These developments are marketed to lay mum and dad investors as

offering the best of both worlds; a holiday pad for the family, attractive locations, tax benefits, income through the letting pool, professional on-site management and so on. These investors buy these apartments emotionally, and justify it rationally. On the emotional side of course they are attracted to the idea of a holiday apartment in their favourite location, being able to tell their friends and family and having something exciting to focus on. But they also need to justify it rationally; so rental returns, tax advantages and capital gains become the rational justification for the financial commitment. In order to exploit these factors, the developer knows he needs to offer a real estate product that pushes all the right boxes with both the emotional and rational side of the purchase decision.

The inevitable consequence of these circumstances is that **almost all hotel and resorts developed in Australia for the past two decades have been built to sell, not built to fill.** With few exceptions, they have been developed without any rigorous feasibility of how they will attract occupancies and revenues, nor how that will translate to real, sustainable returns for the investors. I could expand in great detail with examples of this, but for this audience I'm sure many of you have seen it all in ugly detail many times over.

So, first and foremost, **the fundamental hallmark of an underperforming hotel or resort is that it was probably poorly conceived.**

Coming a close second in reliability for failure is **poor site selection**. You don't need to be a property development guru to know not to develop a multi storey car park in a desert, but it seems almost anything goes when dreaming up ideas

for quirky resorts in ridiculous locations. I call it the “I’ve got a block of land” syndrome. “Let’s put a resort there; the Japanese will love it!” The scarcest commodity in tourism is realism. Not that most seasoned developers really want to build hotels and resorts anyway. Even in prime down town city locations, hotel developments usually are considered well down the list of options after much more straightforward concepts like car parks (easy), office blocks ( a little harder, but relatively easy still). Even retail shopping developments rank well ahead of hotels in attractiveness to developers.

By the way it’s not all their fault. The accommodation industry can be a little quick to criticize developers for what they have created in the past. However the developers are merely responding to the market circumstances and in particular the tight constraints that financiers place on them. Hotels and Resorts are not that attractive to them, but if it’s a problem site, then maybe it gets a little extra consideration.

As a Manager, I can’t really do too much about the above circumstances. For hotels and resorts that suffer from inadequacy in the above two areas there is little I can do after the event to reverse out these inherent problems. Obviously the problems may been able to be avoided in the first place if a proper market study and financial feasibility had been undertaken from the outset so that the design and operation function of the property could have been tailored to meet the identified target markets blah blah blah..... And “Blah Blah Blah” is I’m sure what all the developers are hearing when I preach this sermon to them early in their planning. I haven’t met many developers in that stage that are very

interested in selling reality. They are building the dream and reality takes second place.

Feasibilities are too expensive, take up time and aren't always right, I often hear.

So here's a cheap, fast and pretty accurate feasibility tip – "WHO, HOW & WHAT".

WHO is going to go there?

HOW are they going to get there? And

WHAT are they going to do when there?

Many failed resort developments would never have been built if the above questions had been considered honestly at the outset.

So, often our resources at Best Management Group are applied to remedial management activity from resorts that suffer from the above history. We have gotten our fingers dirty getting into scores of these properties over the years. Sometimes it seems like we run a hotel and resort hospital, where we are always working by the side of an unwell patient, administering remedies.

I'm proud to say that our fine team at Best Management Group has affected some stunning recoveries to varying types of hotels, resorts and residence. You might say we haven't lost a patient yet!

Beyond the couple of broad factors I outlined above, there also many smaller symptoms of failing hotels and resorts that are easily identified and can be remedied. When remedied they might not turn a sow's ear into a silk purse, but can certainly stop the rot and help bolster lagging profit performance. Some of those I'll describe to you know may seem a little trivial but you can see them and

fix them now. And if you don't they will combine to form a cancer that might see yours as yet another property to hit the emergency ward.

A common quote is "the first owner of a hotel never makes money", maybe the second or third owner. I think the first owner can do well if the macro issues of concept feasibility and site location are properly addressed.

Here are some of the micro things you should search for now and root out in hotel and resort properties.

**DISPARATE RATE STRUCTURE.** By this I mean a wide gap between the rack rate and the actual nett rate achieved. Regular travelers know that rack rate generally means the rate you don't actually pay, unless you've stumbled into Brisbane on the night of the State of Origin clash, or Sydney when AC/DC are appearing for the first time in donkeys years. I don't have a precise formula, but when as a guide the property achieves a nett average rate of less than 50% of the rack rate, you've usually got a market positioning problem. And that problem is usually that the owner has an unrealistic view of what the property can command. Some people don't care so much about the price, and can make great customers. But if they pay \$300 a night for a room that realistically only commands \$120, they know they've been duded and will take a swipe at your staff and provide a full and frank report to everyone they know and paste a negative review on TripAdvisor.

On a related matter, be wary of TripAdvisor hotels that feature lots of very bad reviews mixed with lots of very good reviews. These hotels in my experience

usually have that wide disparity between published and achieved rates, and you can't help but conclude that they post a few positive phantom reports of their own. These reviews are usually prefaced with "Don't believe what the other reviewers are saying" or "They must have stayed at a different hotel to me".

**MESSY.** This is not to say that the pristine, tidy properties are money-spinners conversely. I'm talking about mess which the management and responsible staff see, but don't act on. Fingerprints on the front sliding doors, (which the under occupied receptionist stares blankly through most of the day). Tables not wiped down properly. Litter not picked up. You'll often find boxes and other pieces of equipment lying around, seemingly without an owner. And this is in areas the guest sees. Go back of house in a place like this and you are in for the shock of your life. Lewd posters and photo's on the walls of the maintenance room. The state of the staff room is normally a reliable barometer of how bad things are with the business.

What fascinates me is that many of these properties have staff twiddling their thumbs, due to the poor occupancies, but here isn't a culture of picking up a sponge and giving the reception desk a wipe down, or tidying the magazines and brochures in the lobby. By now you might be starting to wonder if I am some sort of clean freak with a mild disorder of some sort. I don't think I am. But I do know that hotels and resorts are in the cleaning business as much so as they are in the hospitality business. We clean rooms all day, we clean public areas. We are cleaners, so we should be really good at keeping things clean, but so often this is not the case.

Ever noticed how filthy most cabs are? Despite the fact that the drivers often spend many idle hours in ranks waiting for the next fare, most don't take the time to wipe down the door handles, clean the glass or maybe use a bit of air freshener. I think it's because to most of them it's just a job and no-one seems to care anyhow, so why bother. Being a cabbie is not where I want to be in life, so I'll just go through the motions. There are plenty of hotel housekeeping staff with similar attitudes. If I'm a bit right and therefore getting a job as a room attendant is just a means to an end for someone who can't find anything better, then you will have an attitude problem in housekeeping. Pride in presentation is everything in the accommodation business and if your housekeepers don't have it then you are substantially handicapped. The public areas of a hotel or resort – particularly as it presents to the road, and the overall arrival statement tells would-be and arriving customers something about how clean their room inside might be after they have made a commitment and checked in.

My experience is that many people can't see mess. And if they can't see and act on it in their own home, they are even less likely to do it on the job for you. Take a random inspection of mid and low range real estate for sale and you'll see how people live and feel comfortable presenting their home to the outside world. Many of these same people end up with jobs in hotels including responsibility for maintenance, housekeeping and cleaning. You can't ask to see inside employees' homes before you commit to employing them, but you can take a drive past and it can be quite insightful – particularly if they are employing for a gardening job.

**WEBSITE CONTENT OUT OF DATE.** Ditto for the guest compendium. The website is your live and dynamic medium to communicate with the outside world and potential new guests. If the rates are out of date or the happening calendar is still referring to obsolete events, it obviously causes the would be guest to wonder whether the food you serve up might be past its use-by date also. Struggling hotels and resorts often become very inward looking and lose focus on the broader market and the image being portrayed to potential customers. An obsolete website is a dead giveaway of a property running off the rails.

**BACKGROUND MUSIC** NOT RIGHT - either not on when it should be, or tuned to an inappropriate station. This is a pet issue with me, because I generally like the background radio tuned to ABC Classic FM. It's not because of a quirk of my musical taste but simply because:-

- There are no ads
- The music is inoffensive
- Any talk is beautifully delivered in soft tones
- News on the hour
- Very little repetition (like top 40 stations and some muzac systems which drive guests and staff insane)
- You can just leave it on and it runs 24 hours per day. Idiot proof.

My most regular experience is to walk into the foyer of a struggling hotel and resort and find nothing, or should I say hear nothing. "What's the story with background music?" I'll ask the Manager normally to be told some vague story about there was once a music system but it got cut off. So I say "Geez it's pretty

dead without anything in the background” and usually get a nod of agreement. So I then scramble around out the back and find a dusty old FM radio and rig it up and turn the music on gently. And always, as sure as night follows day, I get the same reaction “Not Classic Music”! They agreed we needed some music, couldn’t make anything happen, and when I install a quick easy effective system to at least have something happening at low cost they deliver up their opinion about music styles.

**CONFUSED ROLES**, including absence of current organisation chart, and inadequate Position Descriptions. Staff files are usually incomplete. You sometimes get an awkward silence when you ask the question “Who do you report to?”

**SIGNAGE** is unprofessional in presentation and unwelcoming in content. Unprofessional visual identification standards and almost always some cheesy Word Art on notices.

**DEAD PLANTS IN STRANGE LOCATIONS.** The resort once had a chef who thought it would be a great idea to grow a herb garden. These Chef’s usually move on before the basil turns to seed and subsequent Chefs have no interest in the farm, usually installed in a focal guest area and left to deteriorate. Dead plants in pots appear scattered around all struggling hotels and resorts; like empty stubbies of VB at crime scenes.

**BIG PHOTOCOPER**, with massive ink consumption. The bigger the photocopier the more money is being lost, in my experience. Only Suzie knows how to use it.

**WORK AREAS UNDEFINED** and external parties accessing work spaces inappropriately.

**LAX SECURITY** - loose use of passwords, keys and codes. Staff access and exit points and related procedures unclear or not being adhered to.

Post it notes and notices tacked on walls and on sides of computer screens; the majority of content obsolete or including details of passwords. "1234" is a password favourite.

**STAFF PRIVELDGES overly generous** and sometimes better than guest privileges.

**MANAGEMENT REPORTING NOT FOCUSED ON PROFIT** Absence of departmentalized profit and loss accounts. Daily and regular reporting not focused on KPI's. Senior staff members do not fully comprehend the business dynamics.

**RAT-LIKE MESS IN WORK AREAS**. Food being eaten at workstations. Grubby computer screens with fingerprints. Filthy keyboards. No working pens in top draws of work stations. Staff claim to be too busy to tidy it up, but there's plenty of time to put together a complex staff footy tipping competition.

**STATIONARY SQUATTING**. I made up this saying myself. Most businesses have a stationery junkie lurking within. People that still today managed to consume litres of liquid paper per month even though they are fully computerised. Struggling hotels and resorts have a disproportionate number of these people on the

payroll. It's difficult to fathom how they consume so much stationary, but it's easy to identify who they are. On their desk you'll see stationary squatting occur (Example "Suzie's Ruler – Do not touch!" – often written on with liquid paper in huge letters.) These people don't like to get of their bums and obtain what they need on an as required basis from the central stationary cupboard. No, they like to keep a bulk stock of their own. Look not just in their top draw but throughout every bit of their own personal real estate they mark out as their own territory. These people cost you big money over a full year. I believe it is people with this particular personality disorder who are responsible for introducing the ridiculous concept that children's school books need to be covered.

**PERSONALISED EMAIL ADDRESSES** [Suzie@sunshine.resort..](mailto:Suzie@sunshine.resort..)" which becomes obsolete when Suzie inevitably resigns in a huff because she was asked to move workstations (also taking a bagload of stationery with her; claiming she bought it to work herself).

**EVERYTHING IS LAMINATED.** I'm continuing on from above, these stationary squatters usually control the laminator and take delight in putting up signs all over the place. If it's important enough to be laminated, then it probably should be professionally produced, in my opinion. (The person in control of the laminator usually fancies themselves using WordArt and introducing new fonts and colours to the classy and very expensive Visual Identification Standards once invested in.)

**LOOSE LENDING POLICIES**, usually with both staff and surrounding businesses. Maintenance is usually rife with it. Staff members bring their own tools or equipment to work for use.

Staff expenses claims and reimbursements policy unclear.

**STORAGE, FILING AND ARCHIVING CHAOS.** Multiple storage areas. Content of same not easy to access. As a result there's huge volumes of archives but nobody knows what is in there or how to go about finding anything. However the Christmas decorations are also stored in there and there is no trouble retrieving them and spending hours of company time in November adorning the property.

**BULLYING** ingrained in staff culture.

**CLUTTERED RECEPTION DESK.** As nobody trusts the computer system, all sorts of manual notes and reminders are utilised.

**SUSPICIOUS PEOPLE,** who seemingly have little to do with the business, appearing on site regularly. These are the people who have infiltrated the security of the business and corrupt systems to their benefit. Maybe it's the printer, the guy that runs the tour desk across the road or the regular guest who knows the staff better than the GM.

Getting on top of some of the above micro issues may not completely overcome macro shortcomings of your property, but will improve your profitability and underlying asset value.

**ENDS**

## **About David Catterall**

David is the Founding Director of Best Management Group, and has been involved in tourism and hospitality in a career spanning four decades. In this time he has been directly involved in the management of 101 different hotels and resorts in Australia in varying locations and circumstances. He has rare insight into the trading performance and operational challenges experienced in these businesses. In addition to opening new resorts and hotels, David also has substantial experience with remedial management for distressed hotels and resorts and has drawn upon much of that experience for this presentation.

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