

Ostrich attitudes to a recession



Despite the financial markets being in melt-down, few politicians are yet admitting that their countries are in, or are even entering, recessionary times.

There seems little doubt however that the western world (and perhaps other regions) is going to experience a period of slowdown and this must impact hotels sooner or later.

Let's shake off such ostrich-like attitudes and consider how a hotel or a hotel business might plan to survive, and indeed benefit, during a down-turn.

Improving financial strength

First, we need to conduct some balance sheet management. A business's life support system is its ability to generate cash and, at times like this (if not at all times), care must be taken to limit the investment in non-cash working capital.

Strategies for survival will include reviewing and limiting credit policies, reducing inventories of food and beverage, negotiating longer credit terms with key suppliers and even negotiating deferred payment of taxes.

Now is also the time to play the relationship card with your retail bank to ensure that you have the overdraft and other borrowing facilities needed and at an appropriate cost. This might well mean extending your long-term loan facilities to realise capital improvements. If you have long-term loans in place and the ability to pay them off, this will often be the right thing to do it - it's the equivalent of battening down the hatches as a recession approaches.

Finally it's also appropriate to ensure that your shareholders agree to a dividend distribution policy, or indeed cash injection policy, that is appropriate to the new environment.

Protecting profitability

With a strengthened balance sheet, attention needs to be paid to protecting the immediate profitability of the hotel. As we know, hotels carry a large proportion of fixed or semi-fixed costs so a small shortfall in revenue can have a disproportionately negative impact on profitability. Let's leave consideration of the revenue stream for later and consider first cost management in the context of hotels hit by a downturn.

Initial focus will be on eliminating un-necessary cost. Challenge yourself and your team to stop doing things that just don't add value to the customer. This might be as simple as the chocolate on the pillow or it might be to radically redefine the core offer in the way that **easyhotel** and **yotel** are doing.

Having stopped doing non-value adding things, the next thing to do is to look at what is left and to outsource those things that others can provide cheaper. This might be as simple as the valet parking operation or as complex as the provision of human resource management or provision of the IT environment.

Finally, you are left with the costs that can't be eliminated and the costs that can't be reduced by outsourcing. These are the costs that need to be managed in-house - by reducing both the unit costs and the units bought. With utility costs, for example, there should be renewed focus on aggressively managing down the units consumed, as well as on switching suppliers to obtain the best price.

Ultimately, you need to recognise that the big cost centres of payroll and utility are most likely to offer the greatest scope for savings to ensure survival.

The right response to revenue weaknesses

As demand start to tumble, there tends to be an automatic response to drop prices to try to continue to hold in existing customers. This is often the wrong thing to do because it's addressing a non- or wrong issue. What's important is to identify those channels and those segments in which demand is dropping, as well as those channels and those segments where price resistance is being experienced. They'll be different, so different revenue management tools should be employed to address these different issues.

As demand in one segment seeps away in a recession, it's important to replace this business from segments that are not declining and from those segments that are even growing. There will be some. These may be segments not previously addressed, addressed historically by other hotels in other market positions or even segments that previously didn't use hotels. It's likely that you will start to steal business and open channels not previously used. And you'll re-price.

Refurbish, reshape and reposition

One of the lessons from previous recessions is that it is a good time to bring forward rolling room refurbishment programmes. With less occupancy, there is an opportunity to complete works without the profit disruption that would otherwise be incurred.

It may well be the time to bring in a professional management company to add the processes and disciplines that are missing in your current operation. And it may be the right time to challenge yourself in respect of the hotel branding, ensuring that the hotel features on branded e-channels and in branded collateral that speak to the new markets necessary for survival.

All of this requires your executive team, management and staff to work hard to reshape and reposition the business. Necessarily positions will be lost as the business evolves. Some of the cost reduction can be achieved by changing full-time positions into part-time positions and long-serving team members may prefer to be engaged in lower-paid positions than to lose their employment altogether.

This will be a time when your approaches to people management and change management are fully stress tested, so you should invest in change capabilities.

In designing and implementing radical life-saving strategies for your hotel business, independent consultancies such as ours can play an important role.

And finally...

You'll be interested to know that an ostrich doesn't actually stick its head in the sand. It just ducks down when it detects danger, usually in high grassy areas. When ostriches feed they appear to be burying their head in the sand because they deliberately swallow sand and pebbles to help grind up their food.

Burying their heads in sand would, in fact, suffocate the ostrich. Don't allow it to happen to your hotel business!

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