

## Selling a management contract



Part of the 'old normal' was that hotel management companies could woo intermediaries such as banks, legal practices, real estate brokers and consultancy divisions of the major accounting practices and get a practically free ride into opportunities. A tweak or two on a standard fee proposition and 'bob's your uncle', we've got another flag on the map. In tomorrow's world such an approach seems to us much less likely to be a sustainable route to market.

We believe hotel management companies will have to focus on defining their unique proposition in the context of each specific site.

### Hotel operator excellence

For a start, hotel operators will need to be able to demonstrate that they can operate hotels - and do this more efficiently than others.

Surprisingly, in our experience, few existing hotel management companies can readily provide evidence to support to a statement that they have unique processes that can be shown to produce higher than benchmark GOPPAR. It's not so difficult to do yet we have found that the operators' development teams are not provided with the evidence and do not seem to obtain such evidence their organisations.

A key part of operating a hotel is talent management - the ability to attract, retain and develop executives, management and staff all of whom represent the way the brand values are conveyed to the customer.

It ought, perhaps, to be the key differentiator for a management company – after all what are they actually managing if not people. Yet again, all too often we find the hotel development executives are unable to properly articulate the process excellence in their business or give examples of its outcomes.

There is, of course, one very good way to sell a product and service - and that is to give examples of happy customers. Yet how many hotel development executives can provide examples of owner satisfaction from elsewhere? And how many times has one been offered the opportunity to speak to a satisfied owner - precious few in our experience.

### Appropriateness of the hotel brand

Under the old order, it was quite easy to decide on the brand. The hotel owner / developer started with a thesis that he wanted a Hilton or a Novotel or a Holiday Inn.

Now when the sales rep from the hotel brand comes visiting, he is selling something called Hampton by Hilton or Pullman or Indigo. And in our experience, the offer is increasingly limited to these new brands as the brand owner seeks to build a family of brands on the back of a successful master brand.

At the end of the day, the brand needs to offer a benefit to a defined audience who are persuaded to believe that their travel experience is augmented by use of the brand. In part, it's about product, service and experience; in part, it's about distribution; in part, it's about channels of distribution; in part, it's about the tools used to promote the brand; and in part, it's about price.

The seller of a management contract faced with a knowledgeable owner needs to be able both to articulate these matters and give benchmarks of performance that demonstrate what the recommended brand can be reasonably expected to deliver in this location.

In our experience, few development sales executives are sufficiently persuasive when it comes to brand appropriateness – and this is even more the case as they are incentivised to sell newer members of the brand family.

### **Cost is an issue**

It would be stupid to pretend otherwise. When the NPV of most management contracts represents something like half the construction cost of a hotel, it's little wonder that owners seek to get as good a financial deal as possible.

In reality of course, there is such an opaque market operating that the potential owner of a managed hotel finds that there is relatively little difference in overall cost.

Unlike other professional services, it's not easy for anyone to categorise the providers of management contracts into budget, economy, full service and luxury. Most owners would categorise most offers they receive into the full service or luxury end of the continuum. We await with interest the arrival on the market of a low-cost provider of hotel management services. In our experience, there is a gap in the market.

### **Aligning interests**

'You can have any colour so long as it's black' - Henry Ford's initial manufacturing proposition is all too often the start and finish point for sellers of hotel management contracts.

We listen to our owners and this is not something that many development executives would claim or be able to support. In a world where online networking is increasingly the norm, the next generation of management contracts needs to come with a much more web-enabled and adult approach to knowledge sharing and willingness by operators to listen.

For most operators, but not yet all, it is now recognised that the owner must have the right to sell the contract unencumbered, just as owners increasingly recognise that operators take some time, maybe years, to recover the initial investment in launching a hotel or rebranding a hotel. So most times, it is now the norm that contracts provide for an early termination by one party through a compensation of the party. This is just one way of aligning interests.

But, if we explored more the proliferation of 'sub-brands' and the reluctance by operators to provide master brand radius protection for a number of years or even sub-brand protection, we are not yet at a point that operators can truly sleep easy at night knowing that their business objectives are wholly aligned with those of their business partners, the owners.

Perhaps the biggest ask that a management company makes is to require the construction of the hotel to brand design standards. The physical definition of the brand is not defined, not available or just about to change. Just try to get a cost per square meter estimate out of the person trying to sell a hotel management contract. It's not an unreasonable request yet few developers will even give a range of costs caveated with a legal treatise to avoid liability.

### **Conclusions**

There is plenty of opportunity for management companies to sell their services. The winners will increasingly be those that treat their prospective business partner with sincerity by delivering a focused sales message that talks to the true areas of value-add in the specific situation and providing examples of where best practice can be expected to deliver value.

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