



Excellence in Hospitality Consulting
and Services Worldwide

System For Selecting Management Company

Stephen Rushmore, MAI, CHA, CRE

HVS INTERNATIONAL

372 Willis Ave.

Mineola, NY 11501

516.248.8828 ph

516.742.3059 fax

November 2000

New York San Francisco Boulder Denver Miami Dallas Chicago Washington, D.C. Weston, CT Phoenix Mt. Lakes, NJ
Vancouver Toronto London Madrid New Delhi Singapore Hong Kong Sydney São Paulo Buenos Aires Newport, RI

Hotel Investment Strategies

System For Selecting Management Company

Entrusting your hotel to a management company requires very thorough due diligence during the selection process. Picking the right operator could mean the difference between owning a financially successful lodging facility or one that could take you into bankruptcy. To put this decision into perspective, I have reviewed the operations of more than 8,000 hotels during the past 30 years and found fewer than 2,000 that were run with a high level of competency. Most hotel management companies lack the ability to maximize long-term revenues and minimize long-term expenses.

I find most hotel owners will select a management company based almost entirely on a recognizable brand name. While a strong brand is important, there are many other issues that need to be considered during the selection process.

Over the years, I have developed a numeric rating system to evaluate the strengths and weaknesses of hotel management companies so owners can compare the attributes of several operators. Each question has a rating ranging from -4 to +10. Simply total up the numeric ratings for each of the management companies you are considering and the results will provide a better idea of which one to select.

■ *Comparing the size of the hotels managed by the operator to your property, most are:*

- Larger -1
- The same size 0
- Smaller -1

■ *Comparing the chain affiliations of the hotels managed by the operator, most are:*

- Same affiliation +1
- Similar affiliation 0
- Dissimilar or no affiliation -1

■ *If the operator manages other hotels in the same market area, are these considered to be:*

- Directly competitive -4
- Somewhat competitive -2
- Non-competitive +1

■ *Experience of the management company:*

- New company, limited experience -1
- Moderate experience 0
- Established—extensive experience +2

■ *Management company's financial resources (ability and willingness to invest funds in the property):*

- Limited—no investment potential -1
- Moderate—token investment +0
- Strong—meaningful investment +2

■ *Operator shows willingness to invest funds in the property as a loan (double amounts if funds are contributed as equity):*

- Initial inventories +1
- Working capital +1
- Pre-opening expenses +2
- FF&E +3
- Debt service, other financial guarantees +3 to +5

■ *Management company has extensive experience in one of the following specialized areas that would directly benefit the operation of the hotel:*

- Destination resort operation +2
- Major convention operation +3
- Unique market +1
- Major food and/or beverage operation +2
- Development assistance +2
- Opening new hotel +2

- Distressed property (turnaround) +3
- Bankruptcy +2
- Unions +3
- Operating in secondary cities +1
- Property ownership +2

■ *Management company appears to be flexible in accommodating the following needs of the owner:*

- Short-term contract +4
- Termination buy-out provision +4

■ *Management company's ability to generate profits (based on actual verified financial performance):*

- Normal—competent management 0
- Better than average +5
- Exceptional operating ability (profits) +10

■ *Management company offers ability to obtain:*

- Specialized identification +2
- Financing +4
- Feeder city representation +2
- Track record of success +2

■ *Management company has exceptional expertise or offers specialized services in the following areas:*

- Central reservation system +2
- Centralized sales and marketing +1
- Regional sales offices +1
- Convention & group sales +1
- Frequent traveler program +2
- National advertising program +1
- Top-level personnel +2
- Financial systems & controls +1
- Other specialized services +1
- Group purchasing +2
- Interior design +1
- Personnel recruiting (Web based) +2
- Development capability +1

■ *If management company is a first-tier operator, does:*

- Name have wide-spread identity +2
- Identity have positive value +1

■ *Management company has the following deficiencies:*

- Poor references -4
- Loss contracts (deduct for each loss) -1
- Limited home office structure -1
- High management turnover -2
- No growth plans -1
- Excessive growth plans -1
- Will not subordinate incentive fee -3
- Unwilling to provide restrictive covenant -4
- Fee based entirely on % of total revenue -3
- Can you get along with this company: -3 to +3

I wonder how many hotel owners can even answer all these questions about their management company? If you can, you have probably selected the right one. ♦



By Stephen Rushmore, MAI, CHA, CRE, president and founder of HVS International, a global hotel consulting firm with offices in New York, Miami, Denver, San Francisco, Vancouver, Mexico City, London, New Delhi, Singapore, São Paulo and Toronto. Mr. Rushmore can be contacted at 1.516.248.8828 Ext. 204.