Hotel News Now
Vital information for hotel decision makers

8 pre-opening priorities for owners

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Developing a hotel? Don't leave home without this checklist of key issues that will ensure operational success.

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In the aggregate, national hotel supply growth continues to trend at historically low levels. However, signs suggest an uptick in development might soon be on the horizon.

In fact, on a market-by-market basis, the supply story is quite different than that of the national picture, with select locations experiencing significant additions to supply in addition to growing project pipelines.

The prolonged runway of forecasted performance and profitability growth; low interest rates; increasing acquisition prices; and the proliferation of new brands and product prototypes being introduced to the market are all contributing factors sparking renewed interest in development.
While as an industry we may just be on the cusp, the development discussion is quite relevant for many active owners and investors today.

For those opting to pursue development in this landscape, one should consider that creating value and positioning new hotels to achieve investment objectives starts well before the certificate of occupancy is issued. There are a wide range of decisions that must be addressed before a hotel opens that will ultimately impact the operation and ultimately the overall investment.

The following highlights a few of the key issues that warrant owners' attention during the pre-opening phase to ensure future operational success.

1. Pre-opening budget

The pre-opening budget, or POB, reflects anticipated expenses associated with operational activities required to prepare for a hotel's opening, such as executive hiring and relocation, staff recruiting and training, temporary office space and equipment, sales, marketing and public relations.

In most instances, the POB is developed by the hotel manager and approved by ownership several years prior to a hotel's actual opening date. During the interim period between approval and opening, many factors can change (e.g. wage rate growth assumptions, hiring criteria, public relations issues, office space rental) that might challenge a POB.

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While it is incumbent upon the brand/manager to effectively manage to the approved POB, it is equally important for ownership to critically assess and re-evaluate against market realities to anticipate and mitigate potential cost issues. Close coordination with the brand/management and monitoring of actual POB expenditures against anticipated costs, coupled with a reasonable contingency, will ensure overruns in certain departments do not detract from required expenditures in other areas, such as sales and marketing, critical to future performance.

The key is that ownership needs to be at the forefront of these issues to make strategic decisions, rather than simply reacting to management's recommendations.

2. Leadership team

Ensuring you have the right leadership team in place is vital to a successful hotel opening.

This means identifying candidates with qualifications that suit the specific brand, product and market location, but also assembling a team of professionals with a proven track record in pre-opening, sales and operational ramp-up.

All too often, the sense of "we have plenty of time" detracts from key milestones that must be met along the way to achieve operational success. Pre-opening activities require strategic vision, absent the day-to-day pressure of operating a hotel, which can be a challenge for those not experienced in hotel openings.

The timing of executive involvement should be carefully considered, too. A director of sales and marketing should be brought on between 12 to 15 months prior to opening, followed shortly thereafter by the GM, among others. Ideally, owners should participate in the interview process, to qualify the candidate's understanding of investment objectives and alignment with ownership issues.

3. Monitoring pre-opening activities

As the management team comes on board to an unopened hotel, there can be a lack of a sense of urgency for many actions (the aforementioned "we have plenty of time" mentality).

Whether ownership plays an active role or retains an asset manager to serve as their representative, it is imperative that communication protocol and reporting systems are clearly established to effectively monitor progress during the pre-opening phase.

Holding the team to task on pre-opening activities should include:

- Reviewing key staff activities and establish milestones. Examples include website content development and translation; colla teral development, sales activities; establishing group room night and ADR crossover targets; and, key account negotiation.
- Closely monitoring progress/deadlines.
- Tracking progress to business plan and pre-opening budget.
- Holding regularly scheduled meetings to review construction progress with the project team.

Staying informed is an owner's best defense to stay ahead of, and mitigate, the wide range of issues that will surface during pre-opening.

4. Corporate brand attention
In addition to monitoring the progress of the executive team, ownership also should ensure that the brand/management is providing an appropriate level of corporate support and resources during the pre-opening phase.

Such corporate or "task force" support is typically necessary to assist at the property level to posture the hotel for opening, as well as ensuring necessary corporate resources are engaged to effectively integrate the property into the overall brand system.

Equally important is ensuring that adequate attention and resources are devoted to the property once open. Strategies to maintain corporate communication and focus include:

- Identifying the key resources at the corporate level (operations, e-commerce, national and regional sales and marketing, etc.).
- Maintaining regular communication (both pre- and post-opening).
- Developing specific action steps and tracking initiatives to maintain corporate focus.
- Scheduling regular meetings/calls to maintain close communication.

5. Staff hiring plan
Payroll is typically the largest expense within the pre-opening budget. Depending on the level and department, key personnel might be brought on board up to one-year prior to opening, with other staff hires staggered based on anticipated recruiting and training time.

Ownership should review carefully the hiring plan and closely monitor progression. Some of the key factors that should be considered, discussed and evaluated within the staff hiring plan include:

- Required staffing levels for the hotel (consider opening vs. stabilized levels).
- Salary and wage ranges and balancing market rates to anticipated service levels. (i.e. "Can we attract the talent we need to be successful?")
- Negotiating points, policies and other expenses (e.g. management relocation expenses).
- Unique issues that might affect staff hiring (i.e. labor agreements, location, security requirements, parking, etc.).
- Timing of hiring by staff (desirability of location, labor market and other issues may require a longer time horizon for recruiting in some markets versus others).
- Adequate recruiting/training area availability. ("Where will people be housed for training until the hotel can accommodate staff?")

While management is tasked with staff hiring, ownership should engage in discussion in developing the plan and closely monitor progress and refine as needed.

6. Sales and marketing strategy
The old adage, "You only get one chance to make a good first impression" rings particularly true for new hotels. Having a defined sales and marketing strategy during the pre-opening phase is essential to laying the foundation, both for market positioning and for ensuring appropriate levels of business are booked prior to opening.

Similar to the budget, the initial business plan might have been prepared several years prior to opening. It is important to review the plan and revise the strategy to reflect market conditions.

Depending on the size and meetings orientation of the hotel, the sales team will be working to book business prior to opening, often quoting rates prior to having a finalized operating budget in place. Absent this guidance, ownership needs to understand pre-opening selling strategies and booking pace to be sure pricing and business goals are consistent with financial objectives.

A common strategy among operators of newly opened hotels is to price to "induce trial." While there might be circumstances where a certain level of discounting is warranted, rate and resulting profit cannot be needlessly sacrificed. Particularly in this phase of the cycle, ownership should challenge management to grow ADR while building occupancy and not at the expense of it.

7. Project budget (e.g. Operating supplies, equipment and technology)
While construction budgets are often intended and/or perceived as adequately funded to accommodate all related costs of opening a hotel, this is not always the case. Operating supplies and equipment (OSE) and information technology (IT) are typical line items in a hotel

development budget that are often the last to get spent. The result can be less than adequate opening inventory of supplies and additional technology expenditures which may get pushed and create unanticipated cost overruns in the pre-opening or opening operating budget.

In order to better anticipate and ensure adequate funding, ownership should review carefully with management the hotel's opening supply levels and system requirements, including capital and operating costs with management to identify early on any key issues which may impact the budget (e.g. "Is a food and beverage point-of-sale system included? Required software?" etc.), and develop a strategy for funding shortfalls

8. The 'stub-year' budget

Typically a hotel's first year operating budget, commonly referred to as a "stub" or "partial" year budget, is due from the hotel manager 60 to 90 days before the hotel opening date. As this budget will set the expectations between ownership and the management team for the initial operating period, it is important that attention be given to reviewing the key budget assumptions to ensure alignment with investment objectives.

Ownership should ensure the operating budget is developed in a timely manner to allow for adequate review and discussion. The budget should be reviewed for consistency with the original underwriting proforma, with any variances clearly explained. Special consideration to seasonality and business volume ramp-up, as well as pre-opening booking pace and rates should be reflected in the stub budget.

It is also important to understand and account for expenses related to transitioning from pre-opening to operational ramp-up, and how these expenses will impact the initial operating period (e.g. staffing versus business volume as hotel ramps-up, additional training, time associated with "learning the asset", etc.).

Lastly, the operating budget should incorporate costs incurred and/or savings achieved through the pre-opening timeframe to most accurately reflect the expense picture for the initial opening months, until the operation stabilizes. Lessons learned and observations during the ramp-up phase will be key to developing a realistic full-year budget and should be noted to improve the accuracy of forecasts and future operating budgets in the early years.

Conclusion

Now is an exciting time to enter the hotel development marketplace, but one should remember that opening a new hotel presents additional challenges, as well as opportunities. Despite budgets, checklists and best laid plans, the reality of opening will inevitably reveal unexpected operational issues, unique market dynamics and other challenges or opportunities that will necessitate some level of adjustment in strategy and approach. Maintaining close oversight during the pre-opening period is critical to a property's ramp-up, as well as achieving financial objectives and investment returns.

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