

A modern hotel lounge with a large fire pit, a sofa, and a tray of drinks. The room features a high ceiling with a large metal pillar and a dark, textured wall. The fire pit is the central focus, with a fire burning brightly. A sofa with patterned cushions is visible in the background. In the foreground, a tray with a bottle and glasses sits on a low table.

HOTEL PRE-OPENING

A TACTICAL
APPROACH

**DREES &
SOMMER**

EXECUTIVE SUMMARY

The pre-opening of a hotel is a six to nine month phase where the hotel operator gradually takes over the property from the contractor and prepares the hotel for its first year of operation. This white paper focuses on the approaches Drees & Sommer recommends hotel owners take for a successful opening by minimising the risk of budget overspend and delayed opening.

Findings from our research and experience suggest that there are three main causes for delays: lack of communication between project stakeholders, contractor time pressure and delayed activities. These three causes alone account for 67.5% of hotel delays, severely impacting the hotels' return on investment as well as jeopardising the profitability of the first year of operations.

Drees & Sommer's seven pillars tactical approach includes:

1. PROJECT STAKEHOLDERS ALIGNMENT
2. VALUE PROCUREMENT APPROACH
3. DELIVERING A QUALITY HOTEL PRODUCT
4. TECHNICAL BUILDING DELIVERY
5. FOUNDATION IS THE PATH FORWARD
6. REALISTIC OPENING DATE
7. ASSET PERFORMANCE AND STRATEGY AHEAD

This research paper highlights the main challenges and proposed solutions for each of these seven pillars, resulting in savings in five categories:

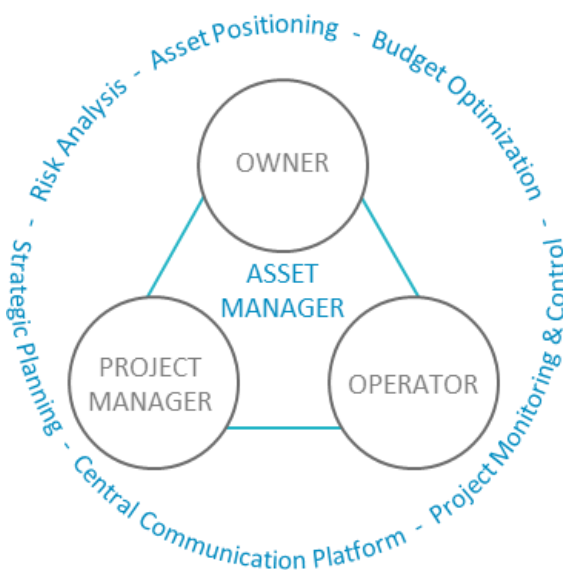
1. FF&E EXPENDITURES
2. HOTEL RECRUITMENT PHASING
3. OS&E / IT EXPENDITURES
4. ADVERTISING & PROMOTIONS
5. HOTEL ORGANISATION STRUCTURE



INTRODUCTION

The role of a hotel asset manager is to achieve the owner's objectives by managing the investment and by resolving misalignment between all the parties to boost overall asset potential. While the role is essential in the overall lifecycle of a hotel, this paper focuses on tangible actions that can be taken during the hotel pre-opening phase, typically lasting between six and nine months.

The Asset Manager Role during pre-opening:



(Source: Drees & Sommer, 2018)

The following highlights the Drees & Sommer seven pillar tactical approach to a hotel pre-opening.

1. PROJECT STAKEHOLDER ALIGNMENT

During the pre-opening phase, the control of a project is shifting from the project manager to the operator.

Challenge: The lack of efficient communication and coordination between all parties can result in misinterpretation, delaying activities and putting at risk the opening date with a negative impact on costing. According to a 2014 poll (Noordzy and Whitfield, 2014), 35% of the

respondents attribute a delayed opening to poor communication between owners and hotel management.

Solution: The asset manager must engage in regular progress meetings and property visits to grasp the entire development and act as a communication platform via a project planner that aligns all stakeholders to minimise expectation discrepancies. Asset managers must maintain and frequently update a consolidated Gantt chart that highlights the critical path of the owner, operator and construction key activities, to provide visibility to all stakeholders.

2. VALUE PROCUREMENT APPROACH

The responsibility of the procurement of furniture, fixtures & equipment (FF&E), operating supplies & equipment (OS&E) and in most cases information technology (IT) lies with the hotel owner.

Challenge: The lack of a procurement strategy or poor processes often leads to budget overspending. Without a dedicated procurement coordinator, a project runs the risk of missing out on transparency, negotiation leverage, time management, value products and savings. This can significantly expose the project in terms of initial investment, future capital expenditures and increased operating costs.

Solution: The asset manager must ensure the procurement strategy is reinforced by market knowledge, to enhance the prediction capabilities of the project's needs and to control its quality and budget. Value engineering early helps obtain quality within budget as trying to reduce costs at a later stage would lead to compromising on the look and feel as well as quality, leading to more wear and tear and ultimately impacting operational costs. Equally important is managing risks on the supply chain and human factors, by executing a schedule that monitors all the aspects to ensure all items are ordered and arrive on time.

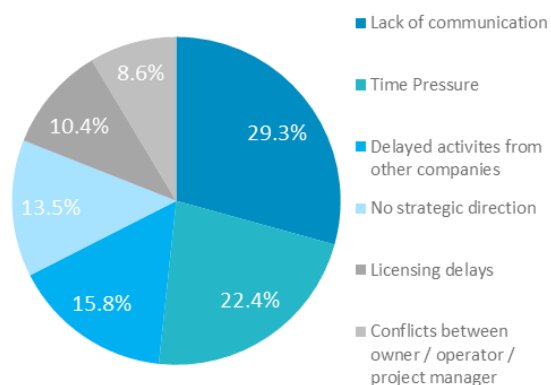
3. DELIVERING A QUALITY HOTEL PRODUCT

The Property snagging is a process executed by the operator to ensure the quality of the hotel finishing is as per its brand standards and in line with the operator approved drawings.

Challenge: The quality level of the project finishing should be set at an early stage, however this is not always the case which makes it difficult for the contractor to deliver the desired end-product. When modifications continue to occur, it inevitably leads to delays in opening with additional construction costs negatively impacting the overall return on investment.

Solution: It is vital to set-up pre-snap schedules to keep control of any risk of nonconformity. This will reduce the snagging / de-snapging timeframe, resulting in a swift handover. The asset manager must also monitor the final mock-up room process, this sets the acceptable quality level of the project rooms to optimise operations and value engineering.

Risk of Failure During Pre-Opening Phase:



4. TECHNICAL BUILDING DELIVERY

The handover of a hotel to an operator from the owner requires the building and delivery to be consistent with the brand standards and corporate identity.

Challenge: An inefficient testing and commissioning program and handover schedule can create divergences, resulting in handover delays. The risk is financial, as the operator pre-opening expenses would significantly increase if the operator refuses handover; onboarding and therefore monthly payroll, exponentially increase up to two months prior to the handover.

Solution: The asset manager must act as a facilitator between the project manager and the operator, to ensure planning is anticipated and effective. It is about aligning all the parties involved to minimise miscommunication and disagreement on the required standards and prioritized areas, allowing for a smoother transition to the operator.

5. FOUNDATION IS THE PATH FORWARD

The pre-opening budget is a 12 months plan, submitted by the operator, that includes expenses and a road map. It highlights all the necessary activities to operationally and strategically prepare the property to launch and function effectively. This is typically approved by the owner.

Challenge: Pre-opening budgets tend to be inefficient, typically due to excessive spending on payroll and unnecessary costs in marketing. This comes from a lack of market intelligence and limited benchmarking. In fact, an operator mostly benchmarks amongst its own brands and not always within relevant geographies.

Solution: The asset manager must use his experience and large data base to benchmark the pre-opening budget against similar properties . Furthermore, regular meetings and visits must take place to follow-up on project progress to steer the expenses and the plan when necessary.

6. REALISTIC OPENING DATE

The forecast / reforecast of the hotel completion is a necessary process that provides accurate visibility to align expectations on the first operating day of the property.

Challenge: Typically, a contractor gets a significant portion of its payment upon completion. Because of this, he is usually in a hurry to handover the property, being too optimistic on the delivery date and not taking into consideration the operator's running preopening costs. This results in a stretched period which can impact expenditure significantly and can increase the initial working capital sourced by the owner.

Solution: The asset manager must monitor the project's progress via monthly visits and meetings to predict a more pertinent opening date, with the help of a consolidated and updated Gantt chart. This will allow postponing when necessary the operator spending calendar to control budget burst; enhance human capital motivation; and avoid cash injection that will jeopardize the investment efficiency.

7. ASSET PERFORMANCE AND STRATEGY AHEAD

The first operating budget, along with the asset strategic plan, provides clarity on the hotel's financial goals and the asset tactical vision. It also helps align all stakeholders.

Challenge: The gathering of poor-quality and insufficient market intelligence can lead to high budget deviation and inappropriate market positioning of the asset, affecting the ramp up phase and consequently the return on investment.

Solution: The asset manager must execute the required quantitative / qualitative research and analysis to fully grasp the market dynamics and the competitors' characteristics. Fair share versus desired market share must be established. This will allow for anticipating the right actions to create a sustainable competitive advantage, through an effective ramp-up to generate sustainable revenues at an early stage.

Most Popular Cost Savings During Pre-Opening Phase:

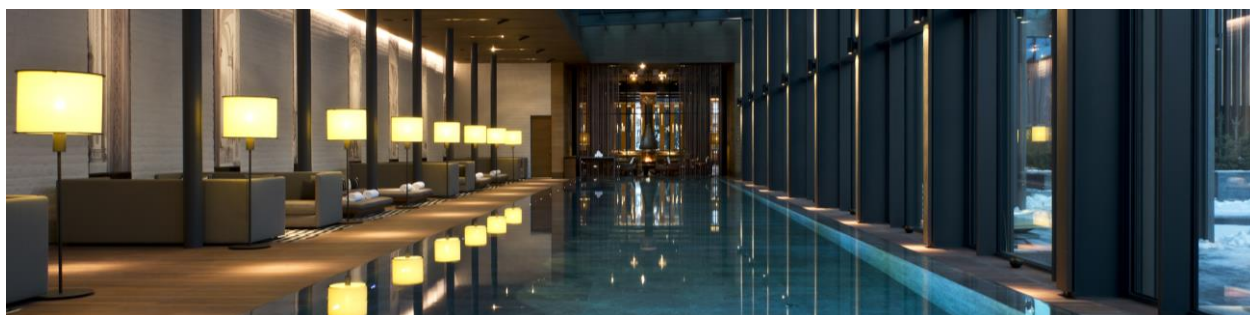
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(Source: Drees & Sommer, 2018)

CONCLUSION

In a project set-up, each stakeholder has its own specific interests, the asset managers' mission is ensuring all stakeholders interests are aligned towards one objective: The Project ROI.

The pre-opening phase is the basis for a successful operation of the hotel. Many challenges are faced that can cause substantial delays with negative financial impact. By focusing on Drees & Sommer's seven tactical pillars, owners and asset managers can have a positive influence on the hotel opening date and pre-opening expenses.





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