



Front Office

by Peter Ricci, Ed.D., CHA

Management companies – Choose your dance partner wisely or get tripped up

Another great article from *The Rooms Chronicle*® the #1 journal for hotel rooms management! ***Important notice: This article may not be reproduced without permission of the publisher or the author.*** College of Hospitality and Tourism Management, Niagara University, P.O. Box 2036, Niagara University, NY 14109-2036. Phone: 866-Read TRC. E-mail: editor@roomschronicle.com

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My industry friends are envious. My academic friends cannot figure me out. Why? Because I like to do both evenly. I'm one of those rare breeds of individuals who enjoys Academia as much I like industry – and vice versa. When I speak of "industry", I speak of the hospitality and tourism industry in which I have worked for 28 years.

Recently, I had the pleasure to leave my position in Academia as a professor of lodging management, return to the hotel industry for two years, and now reflect upon those experiences. The reflection I choose to share with the reader is that of the relationship between owners and third-party management companies.

Recently, the third-party management company "industry" has grown tremendously. A third-party management company is a company that manages a hotel for the owner(s). Normally, an owner may not have the time, desire, or professional expertise to manage a hotel asset that he or she owns. In this case, third-party companies compete on their ability to improve the overall operation of the hotel and to persuade an owner that their particular management style, knowledge, or marketing/sales skills will push the owner's profits "over the top" compared to other such expert consultant companies.

Indeed, during my tenure of hotel management, I have had the pleasure to work with no fewer than 10 different management companies. Their strengths, weaknesses, offerings, staff size, abilities, technology support, etc. are as varied as there are brands within this industry. Choosing a third-party company is no easy endeavor for an owner.

The point I wish to make after spending the past two years again involved with management company duties is that I see a lot of turmoil and frustration. And, it all boils down to one area: communication. The initial management company's abilities are sometimes inaccurately communicated to the owners. The goals of the current day sales team employed by the management company are sometimes misunderstood and not communicated effectively to the owner. The accounting practices required by the owners are often not communicated appropriately to the accounting and audit teams of the management company, leading to a lackluster product in the eyes of the owner. And, so the list goes on.

Let's break down this communication problem into three easy steps:

Step one – Communicating while doing the mating dance

Let's face it, third-party management companies need contracts to survive. And, concurrently, owners need third-party management companies to manage their hotels well enough so they'll survive and, hopefully, profit.

During the "dance" of investigating and researching prospective management companies, the owners need to truly meet as many staff people as possible and to investigate and examine as many of the documents produced by the prospective management company as possible. Doing this up front during what I like to call the "negotiation dance" will alleviate problems down the road.

All too often, the principals of the management company, along with one or two senior-level vice presidents, will entertain, meet with, and otherwise schmooze the prospective owners. They will tout their best-performing hotel (and why shouldn't they?) and they will often promise to "accommodate" the owners to generate the return on investment that the ownership is seeking.



Well, to put it simply - accommodating and customizing is not the type of scenario an owner wants to match up with. If the management company has about 90% of their already-produced procedures and documentation matching that which the owner needs, we have a winner. Contrarily, if there is only a 40% match, the owner needs to look elsewhere. Third-party management companies are in the business of taking care of owners, and all too often will try to alter their existing reports, their timelines, their trade show attendance, their hiring practices, etc. to accommodate the particular nuances of the owner. This leads to arguments, frustration, distrust, and, sometimes even contract termination down the road.

Up front, make sure that what you need as an owner is already being produced by the prospective third-party management company. This should not be a difficult endeavor. In a recent issue of *Hotel & Motel Management*, over seventy professional hotel management companies were listed. And, according to *Hotel & Motel Management*, these are considered the “top independent third-party management companies”. Indeed, some estimates state that we currently have upwards of 400 third-party management companies operating in the United States.

With that many offerings and specializations, brand knowledge, staffing variations, etc., an owner would be wise to politely choose a different dance partner at the *start* versus getting into an arrangement that is lackluster from the beginning.

Step two – Ongoing communication while on the dance floor

Another often viewed communication problem is that faced by the operating individual, usually the property’s general manager, month after month after month. What expenses that might be considered appropriate by the management company may not be deemed so by the owners. Third-party management companies will often include travel, cellular phones, training, food, beverage, lodging, etc. for many of its staff members who come to visit the property. Sometimes, specialized sales efforts and expenditures will be spread among several properties. Other times, technology equipment or software purchases are billed back to the properties.

Communication about these expenditures needs to be up front and not “hidden” in profit & loss statements, as is all too common the practice. General managers and owners are more than happy to pay for charges that have a valid and legitimate likelihood of helping their specific property to succeed. But, again, mismatches and overly eager contract negotiators on the third-party management company side, often place properties in the “mix” that cannot benefit evenly (if even at all) from these perceived unnecessary expenses. What results, then, is ongoing frustration and distrust at the level of the general manager which spirals to the owner and then spreads to the management company. In the end, the third-party management company will find itself continually trying to justify its efforts to owners and managers. And, managers and owners will often lose their trust and their ability to see the “worth” of these expenditures.

In my personal experience, I have seen portions of cell phone bills, trade show booths, uniforms, software, training materials, home office entertainment, general manager fees for attendance at events supposedly “hosted” by the management company, etc. If the third-party management company had been up front from the get-go, there would have been no suspicion or mistrust generated.

Also, while in the midst of the contract (while on the dance floor), if the third-party management company decides to add a “sales team for government or association markets” or to “add three additional accounting staff members to assist in closing out the end-of-month more promptly, make sure you receive buy-in from *all* of your owners first by doing a client-wide survey up front. Do not make rash decisions because of your own executive committee meetings at your home office. Instead, remember, you work for, through, and under the fees paid by property owners. The above examples are quite typical and there could be hundreds of others that are generated at the third-party company’s office, never intended to frustrate the owners, but frustrating them nonetheless.

Step three – When the music ends, wanting to dance again and again

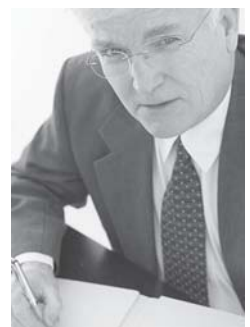
At the end of the contract, what would be the ideal situation? One would hope for a renewal of the contract, right? Indeed, both sides of the equation would agree that would be ideal! The owners and general managers would be so happy with the performance and profit increase generated by the management company; and, the management company would be delighted in its ability to make their properties perform to the highest levels and, indeed, would benefit financially from the bonus programs put in place for positive performance.

Instead, I’ve seen all too many owners wanting to dissolve the contract well before the initial end date. Or, the owners and general managers embark on a very strong adversarial relationship well before the contract ends.

Communication, again, will prevent these issues. Continually speaking to the representatives of the management company and continually tweaking expectations on both ends will help narrow any misunderstandings at the time the contract is drawing to a close. Indeed, it is a long process that is not much fun for any owner to go through the entire management company solicitation process once again.

Conclusion

For the past two years I have had the pleasure of working directly back in the hotel industry as a general manager or project manager for various hotel projects in need of improvement. Prior to 2001, I had worked for a variety of management companies or directly for owners in their attempt to locate



management companies which would perform to their expectations within the realm of style and procedures of the standard required by ownership.

It cannot be stressed enough – the need for communication throughout the entire process of securing, using, and enjoying a third-party management company is a *must* that is often overlooked. While it seems obvious, it is the intent of this article to remind you. In just a two-year stretch, I personally observed about 50% of the owners mismatched with their respective third-party management company. While this is a personal assessment, I am most conservative in my thinking pattern. The ongoing frustrations, lack of communication, heated emails and phone calls, etc. all pointed to an obvious mismatched situation for *both* the third-party management company and the affected owner.

The analogy I have chosen throughout this brief discourse is that of a dance partner. You want someone you're attracted to, someone who has the same technical abilities that you possess, and someone who you'll be happy to dance with over and over again. You don't want someone politely "cutting in" too soon during your relationship. And, you don't want to dance with someone much taller, much shorter, or much better- or worse-prepared than you for the specific techniques of your chosen movement.

In the end, this relationship and process to match ownership with a management company of similar strengths and ability would appear to be a "no brainer". Yet, in reality, it is all too common to join the wrong partnership with disastrous, or at a minimum, lackluster results in the end. ✧

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