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## OWNERSHIP

### Hotel owners tackle 2013 issues

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HotelNewsNow.com caught up with a diverse group of six hotel owners who discussed how they overcome some of the most pressing challenges in the hotel industry.



#### Highlights

- Buying from single vendors that can source the majority of owner Kitty Singh's hotels' daily-use products has been beneficial in keeping costs down.
- Rinesh Patel, owner and GM of a La Quinta property, said it's best to put capital back into a property right away when it is needed. "You see a great jump in revenue."
- "OTAs have ... the ability to change our business model, to change the viability of our business. To me, that's very scary," said

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FAJARDO, Puerto Rico—Although industry forecasts have supply and demand fundamentals staying in check for 2013 and 2014, political and economic headwinds could put a damper on that good news.

Right now, however, hoteliers are putting practices in place to ensure their businesses will be as sustainable as possible in the long term.

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Deepesh Kholwadwala, president and CEO of Sun Capital Hospitality Management.

At the 2013 La Quinta Inns & Suites Conference last month, a diverse group of six hotel owners shared with HotelNewsNow.com the top issues they are dealing with.

### **Cutting costs**

Cutting costs is a big focus on the operational side, said Kitty Singh, an owner and operator of six properties in West Texas.

"One of the things we've been really aggressive on in our company is vendor consolidation," she said. Buying from single vendors that can source the majority of her hotels' daily-use products has been beneficial in keeping costs down.

For Deepesh Kholwadwala, president and CEO of Sun Capital Hospitality Management, another opportunity to cut costs is in the area of energy management. After making his properties' heating and air conditioning systems more efficient, Kholwadwala saw \$1,000 per month savings at one of his 80-room properties.

On the other hand, Kholwadwala said, managing labor is one of the biggest challenges when it comes to cutting costs. "We're making sure we monitor (housekeeping's) minutes per room," he said. "We monitor how that stacks up against our monthly budget."

### **Managing distribution channels**

Understanding the significance of rewards programs, such as La Quinta Returns, is important to the bottom line, said Eddie Hernandez, an owner of several La Quinta properties.

"When we contract out—give rooms to Expedia—we are paying about 23% (commission) vs. 5% with a Returns member," he said.

Leveraging the use of brand tools also is important, Kholwadwala said. Brands offer a number of tools many owners do not use.

La Quinta, for example, offers market predictive tools that tell owners in what channel they will sell out on a given day given their history in the market, he said. "A lot of people don't look at that," he said.

Cy Michaels, owner of the La Quinta Inn & Suites Wellness Hotel in Trinidad, Colorado, manages her revenue management strategy daily.

After 18 years of high traffic at her property from the gas and oil business in her market, the last few years have been slower. This made it tempting to put inventory on online travel agencies.

"I cut myself off from (OTAs) because I lost money by using them," Michaels said. "It's a negative thing—those (third) parties. ... They don't make the customer happy, they don't make the owner happy. You have to cut them off."

### **New development**

Because supply is still muted throughout the U.S., the owners agree now is a good time to build.

Rodger Forni, president and CEO of Pacific Inns, has nine properties under development.

"It's a great time to build," he said. "Interest rates are at historical lows."

However, "the problem is it takes too much money (to develop). It used to be 20%, now it's 35% to 50% equity requirements," Forni said.

"Until this administration takes care of this economic problem we have, spending more money than we are making, I think everybody's going to hold off for a while," he added.

Kholwadwala has three hotels in the development phase. He said he has found the government's Small Business Administration and U.S. Department of Agriculture programs beneficial on the financing side. The USDA program leverage is particularly helpful in rural areas of the country, he said.

Kholwadwala's challenge with construction is the cost of labor. "Contractors in the '09, '10, '11 period were fighting for a single job," he said. "They are starting to charge premiums for their labor now."

### **Property-improvement plans**

The best property-improvement plan is competition, said Eddie Hernandez, an owner of multiple La Quinta properties. "Competition is the most incentive we have to stay in the game and on top of the game," he said.



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Hernandez has his hotel managers and various employees participate in secret shopping to see what other hotels in their market have implemented.

"You can't count on your franchise PIP to remain competitive," Singh said. "You've got to be in tip-top shape to be in the game."

That said, La Quinta is aggressive when it comes to PIPs, she said, adding that she is under three PIPs this year. "They are concerned with project consistency," she said.

A lot of what gets updated when it comes to brand-mandated PIPs is related to consumer trends, said Rinesh Patel, GM and owner of the La Quinta Inn & Suites Houston Clay Road.

Sometimes, however, hoteliers buy new furnishings for their properties and can personally see the wear and tear on it several years later.

Patel said it's best to put capital back into a property right away when it is needed. "You see a great jump in revenue," he said. "The flag itself lasts so much longer if you keep this momentum going."

### **Biggest concerns**

One of the biggest concerns most of the owners had was OTAs.

"OTAs have ... the ability to change our business model, to change the viability of our business. To me, that's very scary," Kholwadwala said. "As an industry, we are fragmented and we have the ability to change very little because we are fragmented. We need the (American Hotel & Lodging Association) and brand to support (owners) in negotiating with OTAs."

Otherwise, he sees OTA commissions getting higher and higher.

What keeps Patel up at night are government regulations such as minimum wage and health care.

"As it gets pushed down as a mandate to us, we have to push it down as a mandate to the customer," he said. "In return, industry-wise, you're going into inflation."

It creates a snowball effect, Patel said, adding: "Everyone loses at the end of the day."

Forni is most concerned with how saturated markets are becoming. He manages more than 20 properties, and said he has seen that some hotel companies are more open to placing one of their brands in close proximity of one of its existing flags.

What ends up happening is that neither of the properties does well, he said.

### **Positive outlooks**

Despite all the challenges, sources said they are all generally seeing solid performance in their properties.

"With the natural growth I'm seeing in my current hotel, (I have) confidence in opening a new hotel," Patel said.

"We're thriving financially," Michaels said. "It makes me happy ... that (our hotel) supports 40 people in our area with jobs. ... We are a living, breathing organism (in our community)."

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