



## Global Hotel Network® Perspectives

7 reasons to upgrade during a downturn! "Now is the time" ... a somewhat contrarian viewpoint



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Global Hospitality Resources, Inc. asked Duane Buckingham, CEO, INNCOM, to comment on whether it made sense for lodging properties to upgrade during the current economic turmoil. He reports:

### #1 Investing at the bottom

From Nathan Rothschild to Sir John Templeton to Warren Buffet, the advice from successful investors through the ages has been remarkably consistent: *The time to invest is when doom-and-gloom are at a peak.* From the broadest perspective, there is an opportunity today for those with adequate cash flow and financial resources to purchase attractive properties at greatly distressed valuations from those who are unable or unwilling to weather the storm.

There are also several sound reasons to invest in upgrading existing owned properties during difficult market conditions. Following are some of those, and you will likely note that there is overlap between them.

### #2 Minimizing lost operating revenue

Regardless of whether it is a "total gut and renewal" or a "rolling refurbishment," the optimum time to renovate and make improvements is when occupancies are low. The math is simple. Renovating during good times often means taking guestrooms out of service which would otherwise be generating revenue. In many cases lost revenue from out-of-service rooms during renovation periods can actually equal or represent a significant percentage of the upgrade expense. There is also the bonus benefit of not disturbing guests during renovation activities.

### #3 Deriving best value from vendors

During general economic downturns, vendors are likely suffering as much as hotel operators. While you may reduce rates and offer "specials" during difficult times, vendors are no different. Whether it is for FF&E, high-tech upgrades or anything else, you can likely strike a better bargain with vendors during recessionary periods. Typically, this can reduce upgrade costs from 10% - 30%.

### #4 Government incentives and utility rebates

This primarily involves upgrades to improve energy efficiency and reduce consumption. In the case of rebates, utilities in most service areas in the U.S. have established rebate programs. In some cases, such programs pay for as much as 50% of an energy management system (EMS). This means, for example, that, if an EMS has an un-rebated payback of 2½ years, such a rebate can reduce that to less than 15 months ... a hard-to-refuse proposition under any circumstances. And, despite the recent decline in prices at the gas pump, there is no question that energy costs, the second largest operating expense at most properties, will continue to rise.

Some vendors will also work on a performance-based or lease arrangement in which an energy management system is paid for over time by applying savings toward system cost. This can mean, literally, that the system pays for itself from "day one" with minimal or no cash outlay.

And, finally, it is expected that the new administration in Washington will soon be implementing additional tax and other incentives for energy-reducing initiatives. It is not clear at this time as to precisely what those will be, but they are assuredly coming.

### #5 Even simple, low-cost upgrades can have a lasting impact

Fewer than 4% of U.S. lodging properties have a doorbell or electronic annunciation of *do-not-disturb* or *make-up-room*. This feature is a standard in all international-standard hotels in Asia, and, as most know, Asian hotels have not only been at the top in guest-centric service but have been "first adopters" for virtually all technology innovations ... from remote bedside room controls to RFID proximity locks. And there are cost savings associated with eliminating the printing and distribution of those bothersome do-not-disturb/make-up-room hanging cards.

Another low-cost upgrade is simply replacing outdated analog-type thermostats with digital thermostats. Most major chains have mandated these, but some 50% or more of U.S. properties have not yet made this guest-pleasing change.

The above are but two of a number of "less-than-\$150-per-room" upgrades which can be implemented to differentiate a property and exceed guest expectations. And low-occupancy periods are the best times to do so.

### #6 Employee morale and guest satisfaction

In some cases, especially with low-cost upgrades, existing staff can be reassigned to implement upgrades (rather than being laid off) during periods of low occupancy. I can cite a number of instances during which I witnessed this over the past 20 years, and, in the end run, it has resulted in greater employee loyalty and dedication. And that, in turn, invariably translates into enhanced guest satisfaction.

### #7 Positioning for the inevitable upturn

Finally, once again from a broader perspective, positioning a property during downturns in our cyclical industry means that you will be better positioned for the inevitable upturn. This one is somewhat more difficult to grasp but is, perhaps, the most important of all ... especially for real hoteliers in it for the long term.

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