

Lessons from the Field

A Common Sense Approach to Success in the Hospitality Industry

A Common Sense Review Process for Capital Investments

By Dr. John Hogan, CHE CHA MHS June 30, 2009

“The best investment is in the tools of one's own trade.”

Benjamin Franklin

(1706-1790 American Statesman, Scientist, Philosopher, Printer, Writer and Inventor.)

Benjamin Franklin was known for many things in his professional life, but he is often credited with his logical and sometimes frugal approaches to business and spending money. His Poor Richard's Almanac¹ is chiefly remembered for being a repository of Franklin's aphorisms and proverbs, many of which counseled thrift and courtesy, with a dash of cynicism.

In this time of global uncertainty, there is a hesitancy to spend capital dollars without having a clear sense of the timing of the ROI (return on investment). That concern is reasonable, but it may also cause some hoteliers to delay needed updates or improvements at a time when lower occupancy allows for both availability of space and potentially lower costs from those providing the products or physical improvements. This delay could also allow new competitors to more quickly enter markets when the cycle does improve if existing hotels are not competitive or not meeting the current needs of evolving clientele.

Capital projects are generally defined by both a certain financial amount and government regulations relating to depreciation tables. These projects are usually completed for one of three reasons:

1. To improve the profit potential (sometimes called Profit Improvement Plans)
2. To comply with brand standards or requirements (if appropriate)
3. To introduce significant physical additions or improvements, such as adding a new wing, spa, meeting space, retail, etc.

In my career, I have seen capital requests handled by owners and management companies in many ways. Some of these were organized and logical, while others tended to be biased and not necessarily based on probable business logic but more on what some of us might view as quirky. While capitalism allows ownership to make whatever decision they want, it can be frustrating for those of us in the field.

The following is offered as a guide to considering capital projects.

Goal

1. To provide an objective opinion on large capital projects prior to final decisions
2. To identify and evaluate key assumptions that are part of the projects
3. To improve the quality of capital project requests

Process

1. **Create an assessment team to evaluate all capital projects/requests.** The assessment team should have a representative group of three to five people, representing marketing, engineering, finance and operations (F&B or other major centers). They select a team leader and they are given at least four weeks to evaluate all capital projects/requests after the capital expenditure request process has been introduced to

¹ http://en.wikipedia.org/wiki/Poor_Richard%27s_Almanack

Lessons from the Field

A Common Sense Approach to Success in the Hospitality Industry

hotels. Ideally, this team will NOT have senior executives or those directly involved in the proposed project on it.

2. **Verify and evaluate the key assumptions offered by the person or hotel requesting the capital funds.** The assessment team should review the key assumptions, including the cost estimates, markets to be served, competitive activity and positioning, consistency within the company programs and the financial projections that provide the ROI timelines. Strategies and risk should be part of the justification and discussions with those requesting the capital funds.
3. **Give feedback to the person or hotel requesting the capital funds of any perceived challenges or inconsistencies, allowing them to revise their request.** The assessment team should evaluate all the assumptions and determine if there are problems or challenges in the requested projects, meeting with the person or hotel requesting the capital funds if needed. There may be changes in the request after this discussion, which will likely improve the quality of the request.
4. **Prepare a report describing and evaluating the key assumptions.** The assessment team should put together a brief report, identifying what the team felt were the key assumptions and the team's opinions on the appropriateness of the request. Ideally, major disagreements should be highlighted but the report should **NOT** recommend approval or disapproval of the requests. The goal is to have in depth analysis and discussion, but to recognize it is the responsibility of the owner, their representative or senior management to make the final decision.
5. **Review the final report with the person or hotel management staff requesting the capital funds, and then delivers it to senior management for action.** The assessment team leader should review the final report with the person or hotel requesting the capital funds. The report should then be sent to senior management as far ahead of the decision deadline as possible to allow their consideration.

Assembling an assessment team once a year for evaluating capital fund requests and projects involves more people and allows for better analysis and discussion. By not making recommendations, the team is not responsible for seemingly stepping on the "toes" of senior management or ownership but this team can play a major role in analysis.

Feel free to share an idea for a column at johnjhogan@yahoo.com anytime or contact me regarding consulting, customized workshops, speaking engagements

And remember – we all need a regular dose of common sense.

Autographed copies of ***LESSONS FROM THE FIELD – a COMMON SENSE APPROACH TO EFFECTIVE HOTEL SALES*** can be obtained from THE ROOMS CHRONICLE www.roomschronicle.com and other industry sources.

All rights reserved by John Hogan and this column may be included in an upcoming book on hotel management. The opinions expressed in this article are those of the author and do not necessarily reflect the views of this publication

Lessons from the Field

A Common Sense Approach to Success in the Hospitality Industry



<http://www.linkedin.com/in/drjohnhogan>

John Hogan, a career hotelier and educator, is frequently invited to participate at franchise meetings, management company and hospitality association industry events. He is a successful senior executive with a record of accomplishment in leading hospitality industry organizations at multiple levels, with demonstrated competencies as a strong leader, relationship builder, problem solver and mentor.

Expertise and Research Interest

- Sales Management and training
- Turn-around and revenue management
- Professional Development & Customer Service
- Hospitality Leadership and Executive Education
- Making Cultural Diversity Real
- Accreditation & Developing Academic Hospitality programs

Service to the Industry and Hospitality Education includes working with the Educational Institute Certification Commission of the AH&LA, the Hospitality Industry Diversity Institute, the AH&LA Multicultural Advisory Council, the Accreditation Commission for Programs in Hospitality Administration, the Commission for Accreditation on Hospitality Management Programs, the AH&LA and AAHOA Education and Training Committees, the Council of Hotel, Restaurant and Institutional Educators (CHRIE), the International Hotel Show and the Certified Hotel Owner program for the Asian American Hotel Owners' Association.

He writes weekly columns for a number of global online services (hotel online.com, eHotelier, 4 Hotels, Hotel Resource, etc) and has published more than 400 articles & columns on the hotel industry. He co-authored (with Howard Feiertag, CHA CMP) **LESSONS FROM THE FIELD – a COMMON SENSE APPROACH TO EFFECTIVE HOTEL SALES**, which is available from info@smartbizonline.com, ROOMS CHRONICLE www.roomschronicle.com and other industry sources. He resides in Phoenix, Arizona and expects to publish in 2009 his 2nd book based on his dissertation – **The Top 100 People of All Time Who Most Dramatically Affected the Hotel Industry**.

Hogan's professional experience includes over 35 years in hotel operations, food & beverage, sales & marketing, training, management development and asset management on both a single and multi-property basis, including service as Senior Vice President of Operations in a specialty hotel brand for six years.

He holds a number of industry certifications (CHA, CHE, MHS, ACI) and is a past recipient of the American Hotel & Lodging Association's Pearson Award for Excellence in Lodging Journalism, as well as operational and marketing awards from international brands. He has served as President of both city and state hotel associations.

John's background includes teaching college level courses as an adjunct professor at three different colleges and universities over a 20-year period, while managing with Sheraton, Hilton, Omni and independent hotels.

Lessons from the Field

A Common Sense Approach to Success in the Hospitality Industry

He was the principal in an independent training & consulting group for more than 12 years serving associations, management groups, convention & visitors' bureaus, academic institutions and as an expert witness. He joined Best Western International in spring of 2000, where over the next 8 years he created and developed a blended learning system as the Director of Education & Cultural Diversity for the world's largest hotel chain.

He has served on several industry boards that deal with education and/or cultural diversity and as brand liaison to the NAACP and the Asian American Hotel Owners' Association with his long-term involvement in the Certified Hotel Owner program. He has conducted an estimated 3,200 workshops and classes in his career. He conducts mystery-shopping reviews of quality in operations and marketing, including repositioning of hotels.