

# RE. SEARCH

## #01

### ASSET MANAGEMENT

#### TYPICAL HOTEL MANAGEMENT RELATIONSHIPS

Most Hotels are Branded and Managed by third party organisations (the "Operator") pursuant to a Hotel Management Agreement ("HMA"). The HMA is not a Lease, but rather an agency or service provider contractual relationship, usually tying both parties together for ten to twenty plus years. The HMA is unique to the hotel industry.

Under the HMA the Hotel Owner hands over authority and control of the Hotel to the Operator, assuming responsibility to use "best efforts" to properly manage the Hotel. However, the Owner still retains all risks associated with the business.

The Operator receives a variable fee based on revenue ("Base Fee") and a variable fee based on operating profit ("Incentive Fee"), as compensation. In addition, the Operator will receive contributions from the Hotel to support group reservations, sales and marketing and loyalty programs ("Centralised Services").

Only in very limited situations does the Operator carry any liability or financial penalty for poor performance. In some cases, the Operator may agree to a profit guarantee or fee stand aside subject to performance, typically where the opportunity is part of their strategic plan.

However, these cases are rare and may result in a more expensive, Operator friendly contract overall. In all cases the Operators do carry brand reputation risk.

Therefore, the HMA is typically an "all care, no responsibility" relationship from the Operator to the Owner.

## AXSIA AND THE CORONAVIRUS

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*While hotels and businesses experience this unprecedented situation, Axsia is well positioned to assist Owners and Lenders curtail financial losses. Our team has the experience to analyse what is critical to protect the hotel asset in the very immediate situation while advising on how to protect the reputation and perception as the hotel emerges from the impact of Coronavirus (COVID-19).*



## THE HOTEL MARKET IN AUSTRALIA AND NEW ZEALAND

**The Hotel market in this region, like most industries, is changing rapidly;**

- Increased supply, creating increased customer choice
- Changing customer demographics and source markets
- Customers are seeking greater experiential hotels
- The huge impact of social media which informs consumers of direct experiences rather than traditional advertising by the hotels
- Industry wide shortage of highly skilled hotel general managers and key Executive Committee (“Excom”) personnel.

## HOTEL OPERATORS AND HOTEL MANAGEMENT



Operators with multiple hotels are increasingly under pressure to reduce corporate overheads, which traditionally provided supervision of individual hotels and hotel management.

Operators have sophisticated Brands, revenue delivery systems and policies and procedures. Typically, Operators with these systems deliver approximately 50% of revenue to single hotels within the Brand. Therefore, the local hotel management is left to source business and promote the Hotel to deliver the balance of the required revenue base.

**The emerging trend for Brand owners over the last decade has changed with focus moving away from Operator roles to focus on distribution. This has more focus on:**

- a. Developing Brands
- b. Expansion and revenue delivery rather than hotel operations
- c. A worldwide move away from Hotel Management Agreements to Franchising.

Operators now rely on “policy and procedure” to drive Brand and functional discipline at the Hotel operating level. This generally creates an environment for the Hotel’s management to be focussed on compliance rather than analysing the requirement of the Hotel’s product and delivery to the market in which they operate.

Some would say this is a commodity approach, which as highlighted in the Hotel Market segment above, does not satisfy the changing customer profiles, seeking experiential accommodation.

Most Hotel managers and executives managing individual Hotels lack experience and are typically tactical; lacking strategic skills. This was more acceptable when the Operators were able to provide greater supervision and the market was not as competitive.

Therefore, with the changing market it has become more critical for Hotel Owners to employ experienced Asset Managers or appoint external Asset Managers.

## HOTEL OWNERS AND HOTEL OPERATORS / MANAGEMENT

Hotel Owners often assume that by appointing an experienced Operator and Brand and giving them rein to manage, the Hotel will achieve their objectives. This is most often proved to be false.

Hotel Operators and Management often don't understand the Owner's objectives, focussing instead on Gross Operating Profit benchmarked to other branded hotels. Falling short of expectations, Operators will typically (and sometimes rightly) blame the macro market and defend their performance against their market view.

Operators and Hotel Management need to understand the strategic (and tactical) reasons for the Owner's investment.

### Operators and Hotel Management need to recognise the Owner, Lender and Brand / Operator relationship;

- Why was the Operator / Brand appointed?
- What value do they bring to the table?
- Where are the shortcomings / gaps that need to be filled to ensure performance?

Owners need to enforce their will regardless of the HMA. Operators will listen and respond to reasoned and intelligent argument to drive superior outcomes. While they don't like to admit it, they can't be across all of the issues and will ultimately want to build a strong, long term relationship with the Owner. Particularly so, when the Owner has potential for multiple properties.



## WHAT IS ASSET MANAGEMENT

Asset Management is a function that oversees the relationship described in the HMA on behalf of the Owner and Lenders. It focusses on aligning interests of the Brand and the Owner and maximising financial performance both of which will maximise value.

Asset Management is either performed in-house or contracted to a third party. External managers bring broader market expertise and a more diverse skill base across a larger team of individuals along with the current knowledge across different brands and markets.

Asset Management is a function that has a financial payback when the focus is on value-add.

## WHY ASSET MANAGEMENT

The relationship between Operator and Owner is controlled by the Operator under a HMA. All employees are employees of the Owner but supervised by the Operator.

The HMA carries responsibility; however, the degree of responsibility and hence the outcome to an Owner can be enhanced by the Owner employing qualified Asset Managers.

Asset Managers with the depth of hotel knowledge and experiences (both at a corporate and hotel level) can ensure that an Operator is held more accountable under the HMA.

Experienced Asset Managers are respected by Operators; and Operators will usually take notice and direction from those experienced Asset Managers.

In mature markets like USA and Europe, Lenders, Financiers and Owners insist on Asset Management as a security measure and as a way to achieve intended outcomes for the Owner in an HMA relationship. The USA and Europe models are now becoming an increasing trend in Australia and New Zealand.

Ultimately, the Operator's role is to manage a "system" of hotels by building brand reputation, distribution systems and loyalty programs. The Owner's role is to ensure that the Hotel management team are leveraging the brand and building loyalty at a Hotel level to maximise RevPAR and asset value for the Owner.



## AXSIA'S APPROACH TO ASSET MANAGEMENT

Traditionally, Asset Management has been an adversarial function which caused Operators to be defensive and “pay lip service” to the function. Asset Management has typically been performed by either finance background or ex general manager personnel who would fall into a category of tactical rather than strategic. Most third-party Asset Managers are singular resources and therefore have singular experiences, skills and focus.

Axsia is well respected by hotel Operators in Australia and NZ. Our team is skilled and experienced in operating in the sector. Axsia has the experience in working with hotel management and the Operator in developing vision and enhancing market share and achieving financial goals. Axsia takes a more encompassing approach to Asset Management.

### Axsia strongly believes:

- In the value of Operator's Brands and the distribution systems for revenue delivery
- Hotel management in most situations is under skilled to recognise strategic possibilities
- Hotel management rarely understand the Owner's asset strategy
- Asset Managers must provide multiple resources with diverse functional and operating experience for each engagement to deliver the right outcomes and enhance the Owners value.

Axsia believes that for any Hotel business to be successful, the key stakeholders require alignment. Creating adversarial situations will not create success or increase asset value.

Axsia, while respecting and understanding each key stakeholder's individual criteria and objectives, creates alignment between the:

- Operator and its Brand
- Owner (and Lenders)
- Employees, and importantly
- Customers

Creating alignment brings together a common goal. The goal to create sustainable asset appreciation against market.

## HOW DOES AXSIA CREATE VALUE ALIGNMENT?

As previously highlighted, Axsia works with the stakeholders to create a “Vision” or strategy for the Hotel that is sustainable.

Starting with the customer demographics and aligned to the Brand, the Vision focusses on what services, product and facilities targeted customers seek. Aligning this critical aspect creates competitive advantage which drives reputation, demand and revenue exceeding the Hotel's fair market share.

Exceeding fair market share revenue is the most powerful tool in creating financial returns and long term asset value.

Understanding the revenue drivers, Owners and Operators are better placed to develop and structure the required resources, both human resources and product delivery. The target being to drive experiential outcomes for customers.

These resources must be cost sensitive and have applicable return criteria.

Owners and Operators should consider total Hotel revenues and customer spend rather than being misled by “departmental” outcomes that can inform the wrong behaviours. Axsia believes that Food & Beverage product and service have a direct bearing on occupancy, rate and RevPAR by creating guest experience.

With the above in parallel it is then a focus on creating the appropriate objectives and financial plan for the stakeholders to activate and receive the benefits. This ties back to the stakeholder's criteria.

Axsia then monitors the implementation and on-going discipline to achieve the desired results.

Where required Axsia will also act as a “mentor” to Hotel management - Axsia's approach is not traditional and requires total partnership of the stakeholders. We work to build relationships by achieving aligned outcomes.

[Refer Axsia's Capability Statement](#)  
[Click here to see](#)

## SOME EXAMPLES OF AXSIA ASSET MANAGEMENT

**Axsia has created some very positive outcomes for Owners. Two examples are:**

### Hotel 1

Axsia worked with the Owner, Operator and local management to create a Vision to lift customer experience. The outcome is the hotel lifted its market share by over 50%. Resulting in significantly improved profits.

### Hotel 2

Axsia assumed Asset Management for an interim period (2 years) while the Owner had the hotel in a holding pattern waiting to commence redevelopment of the site. Axsia worked with the Operator and improved the hotel market share, supervised local government orders and was responsible for restructuring hotel management for that period. The outcome improved the Owners returns by over \$1.0 million over the two years.