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This Hotel Asset Manager Wants the Industry to Rethink How Hotels Run

Skift Take

Michelle Russo knows hotel operations inside and out. She has some changes she'd like the sector to make.

— Sean O'Neill

Michelle Russo has a broad perspective on the hotel sector from her position as CEO and founder of HotelAVE (Asset Value Enhancement), a hotel real estate asset manager and advisor.

- HotelAVE's asset management portfolio comprises over \$7.5 billion and more than 30 hotel operators across the Americas.
- In 2021, HotelAVE touched one out of every three North American hotel deals above \$25 million.
- Her team offers a mix of services, but a key one is right-sizing a hotel's operating costs. It also coaches operators on how to boost top-line revenue and profit margins. It often helps approve budgets and contracts that are, say, above \$100,000.
- Her portfolio ranges from lifestyle and luxury hotels to limited-service ones and big-box convention hotels — with a concentration in Sunbelt and resort destinations.
- "Our industry isn't super sophisticated," Russo said. "But I think we've done a good job of improving reporting, benchmarking performance, and understanding how to use data and analytics at our properties."

Luxury hotels need to rethink their offerings, in Russo's view.

- "In luxury, we need to look at the business model differently — analyzing it in a way driven by asking what consumers really want," Russo said.
- She wants to see more experimentation.
- "Let's test and remove something and see what kind of feedback it gets to find out the value proposition," she said. "I wish I was seeing that more across the board."
- "We do A/B testing all the time on revenue strategies, so why don't we do it on brand standards?"
- Russo gave the example of turn-down service at hotels. She said that at one of her luxury hotels in New York, turn-down costs more than \$1,000,000 a year to execute.
- "In an urban market, why is a turn-down service a requirement for this luxury brand?" Russo asked. "I get the purpose of turn-down at a resort. But we've done studies at urban properties that showed that 80-something percent of consumers decline it and or haven't even checked in yet to benefit."

- Russo asked a representative of one brand about this. The person responded: "If we didn't make it standard, people would complain they didn't get their water."
- Russo responded: "Hello: If water is what the guests care about, we can address that in the first service and cut the second."

"Food and beverage" is usually an area for reform, too — sometimes to cut it.

- "A hotel needs to ask whether its food-and-beverage outlet functions just to service the in-house guest or is it for local capture," Russo said.
- "The thing about a kitchen is the staff is a fixed cost, right?" Russo said. "You can't flex a kitchen."
- "So why don't we close the kitchen, have a great bar, and let people order from GrubHub or Uber Eats," Russo asked. She suggests more properties should install those lockers that keep items hot and cold like they have in Vegas.
- "Why aren't we thinking like that?" she said.

Russo suspects that brand bloat from the major hotel companies is part of the problem.

- Food and beverage is one way for the dozens and dozens of hotel brands to distinguish themselves from each other.
- “But owners don’t want money-losing food and beverage anymore,” Russo said.
- Even if keeping food is the right decision, it needs to be done smartly.
- “A brand might require its hotels to have blueberries and raspberries for a breakfast item, but let’s say your property is in Costa Rica and there’s some other indigenous fruit that is much more relevant and less costly,” Russo said.
- “I’ve been pounding on the table with a message to the brands: Be real.”

At lifestyle properties, upgrading food and beverage is often the best move.

- “Most of the lifestyle hotel assets we’re working on have a totally different food and beverage operator today than they did five years ago,” Russo said.
- “Operators are more receptive now to best practices and ways to be more efficient, whereas maybe five years ago it was like, ‘This is my brand and I’m going to buy my product from only this third-party vendor because they’re my friend.’ So they’ve evolved.”
- Russo’s firm, HotelAVE, has strong views on this topic. It separately asset-manages 30 restaurant, nightlife, and rooftop operators not tied to hotels. Russo said that having a top-notch, smoothly running food-and-beverage offering is critical in the lifestyle segment.

One key task for an asset manager is fine-tuning how a hotel sets rates and how it accepts large bookings — broadly called revenue management.

- “Revenue management is so critical that I believe that a revenue manager should be a member of the executive committee,” Russo said.
- The revenue manager at a property sets the rates. Russo’s team looks at data and helps operators think through their processes.
- “We look at the data differently than they do,” Russo said. “We’re looking at data from the 30,000-foot level, and they’re looking at it from 1,000 feet. For example, we may notice longer-term demand drivers, such as how major companies are moving into the area and how that might affect market demand.”
- “It’s not like I’m saying, ‘I think your price on Wednesday rates is \$20 too low,’” Russo said. “It’s ‘here’s an analytical tool to try’ or ‘here’s a pattern that’s happened five times but you may not have noticed as you handle day-to-day battles.’ Bringing them data, that’s where our value-add is.”

Russo wishes hotels embraced more creativity with rate setting and sales.

- Let’s say a hotel has a mix of standard rooms and large suites. A property like that should have a “bifurcated strategy,” according to Russo. The hotel should think differently about how and when to sell each product, using data-based analytic software. But she said that approach isn’t common.
 - She would like to reform how hotel salespeople are incentivized, too. She said that sales quotas are often too loose.
 - “It’s super easy to sell during peak season,” Russo said. She wishes operators would set sales quotas that are parceled out over time, encouraging salespeople to make steady gains across the calendar — selling all products under all conditions.
 - “What if there’s an index factor [in the incentive structure], so you get 120 percent if you sell, say, Thanksgiving week or whatever period that’s usually soft?” Russo asked. “No one I know of is doing that.”
 - In good news, trends should help both revenue managers and salespeople.
- “Supply growth for new hotels is less than the long-term average, which will support pricing,” Russo said. First, the pandemic disrupted construction. Then, spiking interest rates made it harder for developers to get the stabilized yield they need.

Russo is exasperated by the technology stacks at many hotels.

- “What’s missing are practical, transactional things,” Russo said. “Luxe resorts are an exception. But at most other hotels, there are a lot of transactional processes that happen between guests and staff that should be automated.”
- “Chat functions for guests [to replace phone calls] exist but they’re not applied widely or well,” she said. “There are tools for taking room service orders online, but they’re not widely applied. Mobile check-in and kiosk check-in still need work.”
- “The population of available workers is continuing to shrink in many markets,” Russo said. “So we this is not about kicking out labor. It’s about dealing with a situation that there’s just not enough labor and demographic and other trends may make it worse over time.”

During the pandemic, the relationship between owners and managers warmed up as the two worked more side-by-side in a spirit of survival. But the relationship is reverting to less transparency and more coolness, Russo admitted.

- During budget season in late 2022, operators reverted to an aggressive posture. As I noted at the time, when speaking with another asset manager — Andrea Grigg, who leads the global asset management practice at JLL’s Hotels & Hospitality Group — many hotel operators wanted to go back to pre-crisis staffing and functionality.
- “The theme of budgets that we received initially was just that everything and anything in there,” Russo said. “The operator mentality was to overload the budgets if you will.”
- “We had to start those conversations and say, ‘Look: We’ve been successfully operating and getting good guest comment scores with fewer managers, so what is the rationale for bringing more managers back? Why are we adding all of these extra amenities?’”
- “In the end, we worked toward what’s reasonable for both sides, but the process took more than it should have,” Russo said.

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