Budget Season: Planning Ahead for 2017 – By: Natalie Francoeur

As we help our hotel clients wade through budget season each year, we all wonder if other hoteliers have the same concerns that we do. What are the owner's expectations? Are their expectations reasonable? Can the operations team meet these expectations? There seem to be some perpetual issues that creep up annually – how do we manage the increasing cost of providing healthcare coverage to employees; what will be the impact of new hotel supply in our markets, etc. But each year, there also seem to be a different set of issues that come to the forefront, usually based on changes in laws or regulations, current trends or changes in the competitive landscape of the industry.

We wanted to share several important issues impacting hotel managers for the current budget season. (2017):

1. **Fair Labor Standards Act (FLSA)**: Changes to the regulations relating to the threshold for exempt associates take effect on December 1, 2016 and many hoteliers are spending time analyzing how these regulation changes may affect their compensation policies. These changes may impact department heads and sales personnel, for example, if salaries fall below the threshold level ($913 per week or $47,476 annually for a full-year worker) and they work overtime hours. Management companies are thinking through staffing levels, compensation strategies and career growth opportunities as a result of these new regulations, trying to balance the obligations they have to their employees with the impact to the hotel's bottom line.

   For more information on the Final Rule to Update the Regulations Defining and Delimiting the Exemption for Executive, Administrative, and Professional Employees, please see:

   https://www.dol.gov/whd/overtime/final2016/overtime-factsheet.htm

1) **Minimum Wage Increases:** In addition to the FLSA, certain markets are facing increases in the minimum wage and some of these markets have very tight labor pools. Many hoteliers are evaluating the merits of contract labor in certain departments, weighing issues such as employee satisfaction and morale, productivity and cost.

2) **Increased Cost of Distribution**: While this may not be a new issue, it continues to be one that plagues hotel managers and owners alike. The landscape of distribution continues to shift and change and is impacted by new technologies in the digital market place, the fight to gain and retain customer loyalty and the slow realization that perhaps we have been looking at this cost from the wrong angle for a while. The sheer volume of OTA bookings caused hoteliers to take notice, particularly when costs for distributing through these channels chips away at profit margins. This has spurred the effort to drive more bookings through Brand.com sites; however, the cost of brand loyalty programs are also on the rise and need to be factored into the revenue-generation equation. Many in the industry are championing the notion of evaluating 'profit contribution' as generated by the various distribution channels, forcing managers to look more holistically at where there revenues are coming from, thus allowing them to better evaluate and manage a property's mix of business.

3) **Impact of Marriott – Starwood Merger:** While there are likely to be a number of issues related to the merger long-term (what happens to all 31 brands; do the loyalty programs merge, etc.) there is one immediate issue that many hotel managers are grappling, which is how to evaluate their competitive market in the wake of the merger. While STR has updated the competitive set / trend report guidelines, there are numerous markets in which, even with the new guidelines, competitive sets will have to change. This has implications market evaluations as well as for

performance clauses in management contracts. Some properties may have to alter competitive sets forcing the inclusion of hotels that are not truly relevant making the evaluation of how a hotel fits within the competitive landscape even more complicated.

These represent just some of the current issues that are plaguing the minds of hotel managers this budget season, and by no means is this an exhaustive list. It does, however, highlight the variety of issues that they are grappling with heading into next year.

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About the Author

Natalie Francoeur joined Pinnacle Advisory Group in May 2005 and is currently an Executive Vice President within the firm's Boston office. In addition to working on the asset management team, Natalie has extensive experience with hotel impact studies, feasibility and appraisal work. Prior to joining Pinnacle, Natalie held positions within hospitality operations and marketing and also within the wine industry. Natalie holds a Bachelor's Degree from Cornell University's School of Hotel Administration and a Master's Degree from the F.W. Olin Graduate School of Business at Babson College.

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