Owner Communication and Relations

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Objectives

• Current and/or developing situations
• Why are aligned relations essential?
• Keys to successful collaboration
• How to build mutual respect and trust
• Specific areas of your business to target to enhance relations
• Examples to increase communication and transparency
• Areas and awareness items to maintain caution
• Risks and, ultimately, benefits

Collaboration is essential to successful relations between Manager and Owner
CHMWarnick at-a-Glance

- Globally-recognized for 20 years as the leading hotel asset management and owner advisory services firm
- 100% focused on hospitality real estate
- More than 70 hotels/29,000 guest rooms/$15 billion in client investments under asset management
- Advising on $2 billion in hotel development and extensive repositioning projects
- Senior team of over 40 hospitality professionals; one-third of the individuals on our team have more than 30 years hospitality experience
- Diversified experience (400+ hotels) including every major hotel brand and independent properties
- Global client base: sovereign wealth funds, Fortune 500, private equity, public/municipal agencies, lending institutions, and family offices
The Situation

- Partnership failure rates:
  - As reported by *Small Business* in December 2018, 70% of business “partnerships” ultimately fail
  - As reported by Peter Simmons in 2013 failure rates range from 20% failure to 80%
  - *Forbes* reported in Mar 2013 that 50% of marriages fail while close to 80% of business partnerships fail
  - In 2019 the American Psychological Association reported 50% of all marriages in the USA end in divorce

- Successful execution relies heavily on insuring that Owner and Manager have the same objectives

- Management companies have been shifting from ownership positions to management contracts or franchises with revenue growth from fees while hotels/clubs are experiencing weaker profit lifts

- While your property may be protected by performance termination provisions in your management agreement ("HMA"), Owners are becoming more frequently frustrated with profit performance
Observations

• While both the Owner and the Manager want to be successful, far too often the definition of success by each party is not always aligned by what is the highest priority
• Adversarial relations will never optimize results as effectively as a collaborative relationship
• The keys to developing a strong relationship are trust and mutual respect
• Full disclosure through transparency will minimize doubt and hidden agendas
• While Owners don’t like bad news, surprises can result in greater complications
• Don’t let emotions control decisions – be logical, realistic, give-and-take, some battles will never be won and are not worth the fight
• There are many ways to get out of a management contract - don’t be over confident you have an iron-clad agreement
Personal Experience

• With over 40 years in the hospitality industry, I have been on all sides of the table; it’s not an easy balance but the more you balance it, the more success is achieved

• One major convention resort, five years, five owners, and multiple brand changes, millions on capital and expansions, with massively different objectives by each owner

• Besides one hotel transitioning five times in five years, I have been involved with multiple ownership, brand, and management changes

• Once an Owner decides a change may be needed, it can be too late and the door gets closed
Owners and Operator’s

• Don’t forget who owns the business
• The Manager is often temporary
• The Owner is permanent
• Both parties need and desire to successful
• Both parties need to work together
What is Operator’s Responsibility?

• Executing the management contract
• Retain engagement through achievement of minimum contracted performance targets
• Request resources and provide strategies to exceed the minimum contracted standards
What is Owner’s Responsibility?

- Provide the resources and support essential for the Operator to be successful
- If an Owner doesn’t know what you need, they can’t help you
Why is This Important to You?

Keep your Owner informed and don’t hide information
Keys to a Collaborative Relationship

• Keep your Owner informed and don’t hide information
• When you have clouds on the horizon, make your Owners aware and also share strategies to either minimize or offset
• As Manager you have been empowered to protect the Owners investment – their asset
• Restricting Owner’s access to hotel leaders doesn’t drive open dialogue; funnel all communication through the General Manager
• The Owner can be your best ally and partner if asset is sold or other changes occur – you want to be united and on the same team
• Bottom line: make sure your priorities are aligned
Key to trust and mutual respect: Communication & Transparency
How to Nurture Your Relationship

Monthly Financials

• Provide updates earlier on revenues and expense successes and failures
• Share results as early as possible with your Owners
• Provide meaningful dialogue and engage your Owner keeping comments brief and to the point
• Discuss the failures, what you learned, and strategies going forward

Monthly Owner Meeting

• Make it a memorable meeting - show and tell!
• Bring samples of new food menu options, show pictures or videos of events, and schedule tours around the property of a different area each month
• Bring other staff to the meeting and have them meet and engage with the owner!
How to Nurture Your Relationship

Forecasts

• Some Owners don’t look at your forecast as a tool to benefit them, rather more value for the operator global reporting
• It should be a tool to track mitigation execution and should be used to flex with business changes
• If you can’t load forecast changes, share it verbally as risk or opportunity, so when the change happens it’s not a surprise - Owners don’t like to wait six months for updates
• Be proactive and outline strategies and mitigations to implement before the change occurs

Quarterly or Mid-Year Update

• Regardless of required or not, offer a mid-year or quarterly business review
• Highly successes and failures
• Highlight strategies to correct the failures and exceed expectations
• Keep the presentations simple and to the point
• Don’t regurgitate the data the owner already sees
• Update status of earlier strategies and initiatives
How to Nurture Your Relationship

• Performance threshold update
  – The Owner can do the same calculation – don’t hide it

• Inspections and audits
  – Promptly inform your owner when one of these occur not just when the report arrives and provide strategies of action plans
  – Unfavorable ratings can impact the Owner’s valuation of the asset

• Balance sheet
  – The balance sheet belongs to the Owner, keep them apprised of material changes and drive confidence with accuracy
  – Discuss Owner’s philosophy on how to handle balance sheet accounts; be sure your management company policies align or are bridged with Owner
How to Nurture Your Relationship

• Owner distributions and contributions
  – Owners need to know when to expect to receive cash or when to provide cash
  – Keep your cash flow forecast updated and include all balance sheet changes

• Management company corporate billables and central services
  – You have a fiduciary responsibility to your Owners; let them know you audit
  – Review for accuracy, reasonableness, and compliance with your HMA

• Budget
  – Meet with your owner early on in your budget process.
  – Find out what they are expecting and determine if you can and how to align
How to Nurture Your Relationship

• Value engineer
  – Continually look for in all areas including contracts and capital

• Capital Expenditures
  – Formulate capital plan before operating budget and discuss with Owner
  – Watch for and propose ROI projects!

• Renovations
  – Scope, timetable, brand, cash impacts, and ROI

• Technology
  – Industry trends vs fads and communication
  – Realistic and evaluate management company standards
  – Highlight tangible examples of how tech will improve productivity
How to Nurture Your Relationship

• Group Sales
  – Full transparency on production, market, staff performance and deployment

• Employees
  – Status of key management changes in advance of change
  – Bonus program qualifications and payouts
  – If a key member on your or owners team change, meet and build a connection quickly.

• Explain Incentive Management Fees calculations
Awareness

• Ask your Owner what more can you do for them? They may ask, what more they can do for you?!

• Unexpected events will occur; before you execute action, be certain that you’re in compliance with the HMA and expectations of your Owner

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Be Cautious Of...

- Yes, you work for corporate, but you have a fiduciary responsibility to the Owner.
- Don’t raise concerns to your Owner until you have all the documentation.
What is the Risk?

- Management contracts can be terminated
- Neither the Manager nor Owner really wants change as this is disruptive, costly, and can impact reputations
- Failure to work together can inadvertently transition into ugly, costly potential legal disputes
- There will be an economic down turn whether locally, national, or international
- Management company changes can result on staff changes – don’t add to unemployment statistics
Without communication, execution will never be complete
Over communication can cause other complications
Open communication can result in solving problems together
Open communication can also keep both sides motivated, come up with ideas quicker, and produce excitement working together
Owner and Manager alignment will help both exceed goals and reduce anxiety
Questions?

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