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By [Gary Isenberg](#)

Every budget story has a beginning, middle and end, which if managed properly will result in an actionable business plan.



As summer tumbles into fall, hotel asset managers grapple with the annual challenge of reviewing and approving budgets for their hotel or hotels.

As they leaf through page after page of a budget submitted by management and cobbled together with input from all facets of hotel operations—from housekeeping and food and beverage to maintenance and marketing—asset managers ought to look beyond the spreadsheets and revenue projections to conclude whether they are reading a great story.

In the case of a hotel budget, the tale being told is that of the asset's revenue goal for the coming year and how it will achieve that aim. Since all good stories have a beginning, middle and end, the budget must flow and connect in a realistic plot.

## **The beginning: The revenue goal**

The budget story begins by reviewing the hotel's place within the national and local marketplace to discern whether it can meet its projected revenue goals. Yet any revenue estimate needs to first be analyzed within the context of its competitive set in the local market. If a hotel had historically achieved an occupancy index of 90% in comparison to its competitors, it might well outpace that number if it recently underwent a complete renovation that will attract higher-paying customers, thereby increasing both occupancy and average daily rate.

The asset manager further scrutinizes all dynamics impacting supply and/or demand in the market by diving deeper into the market's outlook. Are any new hotel developments planned? Would the new property compete directly with the hotel's target guests? On the demand side, is there an anticipated uptick in convention bookings? Will a major company relocate to (or leave) the market? Does the city plan any infrastructure improvements that could help—or hinder—the hotel's revenues?

If the asset manager realizes the hotel might fall short of national and local averages and, therefore, its preliminary revenue projections, the questions to ask are: What are the possible reasons for the difference? And more importantly, how can the hotel make up the difference through a well-thought-out budget and marketing plan?

Reviewing all those facts provides the asset manager with an accurate picture of the hotel's revenue streams. Once the asset manager defines the true revenue sources in the market, he or she moves to middle of the hotel's story.

## **The middle: CapEx, marketing and expenses**

At this stage, hotel management determines how it intends to meet the revenue goal. The asset manager then determines whether management has hatched a sensible plot.

All engaging stories revolve around interesting characters and subplots. It's no different with a hotel budget that weaves together a marketing strategy, a CapEx plan and an expense budget. All those elements ultimately support the revenue goal—the premise on which the hotel's story is built.

The hotel's potential performance cannot be properly reviewed without considering the property's marketing plan. If management projects a revenue increase based upon booking higher-rated corporate travelers, then all marketing efforts, sales calls and industry outreach initiatives target that segment—not the tour and travel business. Reaching

out to a demand segment that doesn't further the hotel's revenue goal for the upcoming year wastes time and money.

Same goes for CapEx. Can the hotel take advantage of a revised business climate that is set to bring in more corporate travelers if the physical property isn't up to their standards? If not, the CapEx budget must set aside enough dollars to fund improvements, which could mean extensive room renovations, F&B upgrades, additional meeting space or the purchase of a corporate van. Without those capital improvements, the property won't attract that segment—or even maintain the hotel's existing cash flow and customer base. But those upgrades will more than pay for themselves in the higher ADRs paid by corporate travelers.

Every hotel operates on a wide-ranging expense budget used to purchase everything from the guestroom shampoo bottles to the ingredients for each day's breakfast. Therefore, every line-item operating expense must be analyzed as to its probable impact on the hotel's revenue goal. Will the expense enable the hotel to reach that target? Or will it drag revenues down without any measurable benefit? Perhaps the hotel can find less pricey supplies from a new vendor. Or the hotel may want to upgrade its room supplies if it wants to attract more discerning corporate travelers.

### **The end: An actionable business plan**

As the asset manager nears the end of the story, he or she may uncover some “holes” in the plot, so to speak, where the revenue projections fail to align with the proposed marketing plan or budget projections. In those instances, the asset manager seeks opportunities to adjust the budget—perhaps expenses can be cut or CapEx increased. He or she can also request management make revisions.

Let's not forget ownership's perspective in the budget making process. Since the asset manager acts as the owner's representative, he or she determines whether the budget matches ownership's goals. An owner who intends to sell the asset in five years is ill-served by a massive budget in one year that isn't going to recoup the owner's investment for another 10 years.

The asset manager's job is to ensure all components of the proposed budget fit together in a seamless and integrated plot that, when properly written, makes a strong case for the hotel's projected revenue goal. No one item stands independent of another. All elements of the budget and marketing plan must be in sync if the property is to hit its revenue target.

Lastly, a hotel budget serves as a comprehensive business plan for all actionable items needed to meet the financial projections of the hotel. And every financial projection derives from a logical and realistic assessment of the overall market, property condition and aspirational revenue goals. The asset manager's task is to evaluate and justify each budget component so the hotel writes a successful story.

Gary Isenberg is President of LW Hospitality Advisors Asset & Property Management Services. With more than 30 years of diversified hospitality experience in Hotel Management, Finance, and Asset Management, Gary's expertise includes third party asset management, serving as an owner's representative, due diligence for real estate investors, and development services to negotiate management or franchise agreements. His asset management specialties include, among other services, capital budgeting and PIP costing as well as internal control and accounting.

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