



Low Hanging Fruit: Enhanced Profits Through Effective Contract Management

Pareto's Principle, otherwise known as the "80/20 Rule", reminds us to focus on those things that matter most, as typically 20% of the issues control 80% of the outcome. While we are firm believers of this proven philosophy, we also subscribe to a second philosophy, which we refer to internally, as *Low Hanging Fruit*. These are opportunities that are ripe for the picking, require minimal effort and brain damage, and often yield an improvement in process, a cost saving or an enhancement to revenue. Although we have found *Low Hanging Fruit* opportunities to be most abundant following a significant event, such as a change in hotel ownership, operator or asset manager, such opportunities can be identified at any stage of the investment cycle and are worthy of revisiting on an ongoing basis. One of those areas that can be considered *Low Hanging Fruit* are various operating agreements from equipment maintenance service contracts to vendor agreements for food purchases. "Status Quo", or maintaining existing contracts is quite common, as the individual contracts may not represent huge dollars, however, when managed effectively, combined, they often reveal easily attainable savings.

Establish a Process. Overall, the process for managing contracts does not have to be time consuming; the key is staying ahead of the curve. Effective strategies for managing contracts entail developing a summary of all agreements, including key terms and critical dates, and establishing a protocol for periodic review, which we suggest occur at least annually, whether or not contracts are due to expire. Staying ahead of the curve on upcoming contract expiration dates allows ample time to solicit bids, rather than simply executing a renewal, many of which may occur automatically without sufficient notice. While handled by the hotel's purchasing agent or controller, ownership should monitor this information, as it provides an opportunity for benchmarking key business terms that could be useful in developing fair and equitable final contract language, as well as identifying opportunities that exist for changing providers or re-bidding contracts on a portfolio basis.

Shop Around. Contracts are not fixed costs, but are often treated as such. New owners, by right, have the opportunity to review and renegotiate existing contracts. This is a prime opportunity for not only re-bidding contracts, but also revisiting the need and/or scope of services. The ideal is to obtain at minimum three bids with a goal of creating a competitive bid environment, although limitations may exist in some smaller markets where the depth of service or product providers are simply not available. A common tendency of hotel management is to utilize a brand-approved vendor, thereby skipping the bid process. Don't be afraid to shop outside the brand. Brand operators typically have preferred vendor relationships negotiated at the corporate level which may yield savings based on leveraging brand purchasing power in larger markets; however, in some instances, local providers can actually deliver products and services at a lower cost, particularly in food and beverage. While shopping around may vary by hotel, brand and market, in all instances multiple bids should be obtained and compared.

Monitor Trends. Get Creative. Although not the only factor worthy of consideration, certainly price is among the leading criteria for evaluating options. Consider creative options to reduce costs through re-scoping work and seeking to reduce/eliminate non-essential tasks that do not have a material impact on guest satisfaction. An example might be modifying the scope of the night cleaning crew or bringing in house an out sourced service contract. Minor scope modifications could materially impact cost over the long run. Look at contracted services with a critical eye in light of existing market conditions. For instance, are you still maintaining leases on a pay phone bank in the lobby? Given trends in technology and the usage of cell phones, there may be opportunities to reduce, eliminate or perhaps transfer this expense and offer services that translate into improved guest satisfaction. Maintain regular communication with vendors and use them as a resource for staying on top of new product lines and/or advancements that may save money. Are there new chemicals that require less water and energy for cleaning linens? Are there new light bulbs that are longer lasting and more efficient? Volunteering to work closely with vendors can also result in opportunities to beta test new products and be on the forefront of innovative products, services and technologies.

Hotel owners need to employ Pareto's Principle, but should not lose sight of the *Low Hanging Fruit* ripe for the picking along the way. Please call us at 978.522.7000 to learn more about CHM's services and how we can help you derive maximize value from your hotels today!

Ken Wilson
CEO

Chad Crandell
President



PRSR FIRST-CLASS
US POSTAGE PAID
PERMIT #59
BEVERLY, MA

548 Cabot Street
Beverly, MA 01915
978.522.7000 (phone)
978.522.7008 (fax)

With a focus on lodging real estate investment, ownership and asset management, we are dedicated to enhancing value and maximizing returns for our clients and investment partners.

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Meet The Latest Addition To The Bullpen...Peter Keim

We are proud to introduce the latest addition to our team, Mr. Peter D. Keim, joining CHM with more than 35 years of hospitality consulting, asset management and teaching experience.

"We have enjoyed a close professional working relationship with Peter for over 25 years and are honored to bring his expertise officially in house", says Ken Wilson, CEO of CHM. "Opportunistically acquiring talent to compliment our existing team and the \$4.5 billion in hotel investments for which we are responsible, enables us to continue along a path of controlled growth, while maintaining the high level of service and attention we provide to existing clients".

Prior to joining CHM, Mr. Keim served as a Vice President for PKF Consulting, a national hospitality advisory firm, where he managed the professional consulting practice for the Southeast in the Atlanta Office. Mr. Keim's experience includes 25-years resort asset management, condominium homeowner association management, all aspects of hospitality consulting, resort operations management and teaching at both graduate and undergraduate levels.

"Peter's background in resort asset management and consulting experience focused in the Southeast, among other U.S. regions, represents an ideal match for our group, given several projects and developments in the pipeline. He understands the markets, the properties, the players, and shares in our philosophy for deriving maximum value through asset management", said Chad Crandell, President of CHM.

Mr. Keim will serve as Senior Vice President, Asset Management, establishing and operating in CHM's satellite office in Atlanta. Mr. Keim can be reached at 770.733.1011 or via email at pkeim@chmhotel.com.



PETER KEIM
SENIOR VICE PRESIDENT,
ASSET MANAGEMENT