



## News analysis

# Surviving the recovery

In recent recessions, notably in the early 1990s, the recovery has been as dangerous for hotel and restaurant businesses as the original downturn. Seasoned hotel consultant **Peter Nannestad** offers his survival guidelines: primarily that you cannot have too much brutal clarity about the figures in this industry.

A lack of mental arithmetic may condemn the new generation of graduates to repeat the experience of the last – or, from the lexicographers view of ‘manager’, the issue may be in the culture.

### 1 Do you think the recession is over for hoteliers?

In my view, I do not think what we are currently experiencing is a ‘recession’; something more basic is taking place. This is a fundamental change of the marketplace combined with a long-term period of economic austerity.

For the first time there are many more purpose-

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built market-sector, budget and five-star hotels, which means more intensive competition throughout the market.

As far as hotel economics are concerned, indirect costs such as heat, light and power rates have continued to increase. While in 1985, the total indirect costs would be 15 percent of the revenue, in contrast in 2010 it is between 25 percent and 35 percent. In addition wage costs have to be more flexible—due to the minimum wage—to maintain standards. These are trends that will continue and are not cyclical.

### 2 Media and politicians have been critical of the banks’ lending policies and decisions and ‘getting the banks lending again’ was an election catch phrase. In your experience have their decisions been realistic and fair?

Banks’ business behaviour has been very different in this recession to what we experienced in the 1990s, as banks now tend to want to help and support companies more. There is evidence that the banks have taken a long-term view to support businesses through these difficult economic times, which is in the interest not only of their clients, but in the long run will also help their balance sheets.

### 3 At one point in the crisis, there was a rumour that some banks had panicked and wanted to withdraw loans from classes of business – the independents, for instance. Was this just rumour, or have you seen any evidence of this

The love of investing in the hotel and leisure sector is cyclical, but similar to the 1990s, at this stage of the economic cycle it is not perceived as a popular investment choice, but no doubt its time will come again.



#### 4 How would you advise an hotelier or restaurateur to optimise their relationship with banks or investors?

My advice would be to ensure that your banks or investors are kept in the loop with all aspects of their finances and are kept regularly informed of their financial position. For example, share your profit and loss analysis and projected cash-flow information with your investor/banker on a monthly basis.

Everywhere I see that a lack of business skills training is restricting proprietors who lack the skills to carry out this analysis. It is amazing after so many years that hotel management should still see so much amateurism. In these conditions, my company HBIM (Hospitality Business Improvement Management) is helping to support proprietors by putting together financial packages which will enable businesses and banks to work more efficiently.

#### 5 Who would you nominate as heroes or villains, or what positive success factors or negative 'failure' factors have become evident in this recession?

I'm afraid I see a major villain as being the education system, where there are limited, if any, national business and economic programmes to train proprietors to understand the business economics of the hotel and leisure industry. Hoteliers, however good they may be, will find it extremely difficult to survive in this economic situation without the basic economic skills to run a business. HBIM plans to link up with national training providers to both address and resolve this.



As far as the heroes are concerned, quantitative easing by the Bank of England has been a factor that has helped certain companies, even if only temporarily. Also fortuitously, the strong Euro and

weak pound have encouraged people to stay at home for their holidays, rather than travel abroad, as well as a beneficial inflow of European and US visitors.

The BHA (British Hospitality Association) has been extremely influential as a lobbying body to campaign to government to make sure the sector—which is one of the most important streams of revenue for the country, and one which employs over 2 million people—is properly represented in government policy-making.

#### 6 Are your comments on education directed at schools? Aren't the current graduates in business, hospitality and tourism management being adequately prepared to run a business?

I'd like to be positive about hospitality and management degrees, but in my experience, the subject of a degree doesn't make much difference. To give you an idea of what we're up against, I'll give you a recent example.

I was running an event at one of our regular customer's hotels—a four-star hotel on the south

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coast. When I arrived, the manager asked if he could include two trainee managers, freshly arrived with their recent hospitality management degrees—that was fine with me. On the first morning, we were

discussing pricing, and I had presented details of a pork dish for which the materials came to £2.40: as an exercise, I said that chef wanted to achieve a 80 percent mark-up on the dish and asked them quickly to calculate the final price in pairs. These two new lads had not the faintest idea, even where to start: I'm not sure if a calculator or spreadsheet would have helped them. And I come across this kind of problem virtually every week—to the point where I make a passing reference to a percentage of seven-fifths in my introductions to see if there is any reaction: invariably it is greeted with blank looks and not questioned.

What depresses me is that weakness in as basic a skill as calculating percentages in your head, something learnt early on in primary school, appears not to be remedied in any degrees where management is the base subject. How can you teach management at any level without discussion of mark-up, profit margins, overhead allocation, business ratios or tax rates? This isn't an issue of style in interpreting balance sheets. The fundamental problem is in primary education, but the universities are not helping by their hands-off attitude. I don't envisage this is a problem in China, Singapore or India: no wonder the City is snapping up all our science and engineering graduates.

## 7 What are the lessons of the later phases of the recession of the 1980s for the 'safe' emergence of hotel and restaurant businesses from this one?

Business owners must ensure that their loan-to-value gearing is manageable and to focus on achieving the potential EBITDA (earnings before interest, taxes, depreciation, and amortization). The core of survival is strong management of their team, while ensuring that the customers have perceived value for money.

My suggested mission statement would be 'customer led, team built, profit driven'.

## 8 We have just been on a short break in the South West; despite the talk of more

people holidaying at home, it seemed very quiet. Yet some businesses are clearly thriving—good service, good product, value for money and effective promotion seemed to be the key factors.

I agree, maintaining customer perceived value for money will ensure that hotels will achieve above market share, but the systems must be place to be able to achieve this.

## 9 How has the recession affected the threat of chains like Premier Inn to the independent sector?

Because of the changed marketplace due to the 'recession', the budget hotel market share has increased, which has certainly forced some companies to downsize into this sector.

## 10 What are the striking anecdotes that sum up this recession for you?

One hotel with cash flow difficulties suspected the barman was being less than honest with the cash in the bar till, and rather than address the situation, the manager decided to move the till out to reception, so that when any bar transactions were made, the clients had to pay at reception for their drinks.

One of the most chilling situations that I unfortunately see only too often is the fact that many hotels have been identified as achieving only 50 percent of their EBITDA. And that fear of failure, fear of peer groups, pride etc, has stopped them

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from addressing the issue properly. It seems that some hoteliers would rather fail, and blame it on the recession—or drop in bookings, economics, cash flow or the banks—rather than swallow their pride, seek help and face the future with the economic and management tools needed to run a profitable, growing, successful business.

## Defining management

Another symptom of the British attitude to management is how our most commonly used dictionaries define 'manage' and 'manager' in antiquated and inappropriate ways. Any current definition of the word must lead with the definition of 'getting things done through other people', which was commonly accepted when Peter Drucker was writing in the 1940s, and certainly by the time his *The Practice of Management* launched management by objectives in 1954. Instead the dictionaries take us to the days of handling frisky horses and ordering servants about.

Take the *Concise Oxford Dictionary* Ninth edition (1995)—the standard dictionary of English in the UK. Its definitions are:

**manage** /manɪdʒ/ *v. & n.*

*v.* **1 tr.** organize; regulate; be in charge of (a business, household, team, a person's career, etc.) ... **4 tr.** gain influence with or maintain control over (a person) (*cannot manage their teenage son*)

**management** /manɪdʒm(ə)nt/ *n.*

*n.* **1** the process of managing or being managed; the action of managing. **2 a** the professional administration of business concerns, public undertakings, etc. **b** people engaged

in this. **c** (prec. by *the*) the governing body; the board of directors or the people in charge of running a business, regarded collectively. ... **4** trickery; deceit.<sup>1</sup>

These have hardly changed since Dr Johnson's *A Dictionary of the English Language* (1755) when English spellings were still being standardised, and they had an additional word: 'managery'.

**MA'NAGEMENT.** *n.s.* [*menagement*, French]

**1** Conduct; administration.

*Mark with what management their tribes divide;*

*Some stick to you, and some to t'other side.* DRYDEN.

*The wrong management of the earl of Godolphin was the only cause of the union.* SWIFT'S MISCELLANIES.<sup>2</sup>

**2** Practice; translation; dealing.

*He had great managements with ecclesiasticks in the view of being advanced to the pontificate.* ADDISON ON ITALY.

**MA'NAGER.** *n.s.* [from *manage*.]

**1** One who has the conduct or direction of any thing.

*A skilful manager of the rabble, so long as they have but ears to hear, needs never enquire whether they have any understanding.* SOUTH'S SERMONS.

*The manager opens his sluice every night, and distributes water into the town.* ADDISON.

**2** A man of frugality; a good husband.

*A prince of great aspiring thoughts: in the main, a manager of his treasure, and yet bountiful, from his own motion, wherever he discerns merit.* TEMPLE'S MISCELLANY

**MA'NAGERY.** *n.s.* [*menagerie*, French]

**1** Conduct; direction; administration.

*They who most exactly describe that battle, give so ill an account of any conduct or discretion in the managery of that office, that posterity would receive little benefit in the most particular relation of it.* CLARENDON, B. VIII.

**2** Husbandry; frugality.

*The court of Rome has, in other instances, so well attested to its good managery, that it is not credible crowns are conferred gratis.* DECADE OF PIETY

**3** Manner of using.

*No expert general will bring a company of raw, untrained men into the field, but will, by little bloodless skirmishes, instruct them in the manner of the fight, and teach them the ready managery of their weapons.* DECADE OF PIETY<sup>2</sup>

Perhaps we can organise for this omission to be corrected in time for the sixtieth anniversary of Drucker's classic?

**11** Does this reflect the number of so-called 'lifestyle' entrepreneurs in the hotel business, or just the British muddling through again?

Any half-hearted 'life-style' entrepreneurs will have left the sector in the first chill of recession: there is a terrific amount of commitment among the independents and not much life-style left. We want to help them survive as businesses that they can be proud of.

**12** What would your advice be to those who are about to start work or have recently started to work in the hospitality sector?

My advice is to learn the detailed economics of the leisure market and to treat the hotelrestaurant, pub etc as a business, rather than a social platform. Learn the twelve economic indicators from budgeting to running monthly stock takes, in a way that a chef would train to achieve a Michelin star.

Learn that to manage is to get jobs done effectively through other people.

Then make sure the company achieves its profit potential, make sure that you understand what EBITDA is, understand how to give perceived value for money on a continuing basis and to manage staff in a firm but fair way with directives and management development training.

## References

- 1 *Concise Oxford Dictionary* Ninth edition (Oxford University Press 1995)
- 2 Samuel Johnson *A Dictionary of the English Language* (1755) [*An Anthology* selected by David Crystal (London, Penguin 2005) p 364]

PETER NANNESTAD FIH runs HBIM (Hotel Business Improvement Management). From a 16-year-old junior hall porter to hotel proprietor is a story which has been told many times by successful hoteliers. My career followed similar lines: porter – hotel manager trainee at Grosvenor House, London; assistant manager, Prince de Galles, Paris; corporate hotel manager (300-room hotel); hotel proprietor (2 freehold properties).

The key difference to a traditional hotel career was to learn and practise hotel economics and cash flow. I was trained to be a hotelier but realised, as the hotel industry came of age, that it was advisable to become a businessman first and a hotelier second.

HBIM became operational in 1989 when I had a 'gut feeling' that an economic recession was on the way. My bank at the time informed me with 'authoritative knowledge' there were no hard times on the horizon. Why are financial institutions so slow to plan and be proactive to economic change?

HBIM is a unique grouping of qualified and experienced hotel, restaurant and hospitality professionals with track records in the management of corporate and independent hospitality businesses, including as owner-managers of £m+ properties.

Our aim is simple – to enable our clients to increase their profits and improve standards of operation. We do this through working with the client and team, usually over a consultancy period of six months, to help sharpen the operation in all areas.

Together we explore your challenges and then work with you to achieve your objectives. We offer a no-obligation consultation, where one of our business coaches will visit you at your premises and carry out some initial financial analysis for you.

After our initial visit we provide you with a proposal, detailing the exact cost of the programme and also give an indication of the financial difference we can make with you. This will show you how much we believe you can add to your bottom line profits. We then work closely with you to help you achieve maximum profit and build a stronger, more committed team.

Topics include

- The 12 key economic levers
- Management development
- Training infrastructure
- Sales and marketing
- Achieve Profit Potential!

More than 600 companies have used this programme successfully.

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