

# THIRD-PARTY HOTEL MANAGEMENT

Expertise, resources and relationships  
make it a smart choice in today's changing  
hotel landscape



# WHAT IS THIRD-PARTY HOTEL MANAGEMENT?

A third-party hotel manager manages the day-to-day operations for a hotel owner or investor and receives a fee or a percentage of the property performance for providing that service. The range of services provided is quite diverse and can be tailored according to the needs of the owner.

It includes managing the operations, providing or managing hotel staff and bringing in financial and accounting systems, sales teams, marketing support and revenue management.

**The overall goal of the third-party manager is to increase the value and profitability of your property.**

## NAVIGATING THE COMPLEXITIES OF THE HOTEL MARKET

Hotel business is far more complex than it was in past decades. Online travel agencies, non-traditional providers such as Airbnb and digital marketing have made the hotel market highly complex and extremely competitive.

OTAs have consolidated and become multinational conglomerates with multiple brands spread across different markets. Expedia now has 23 brands worldwide and Booking.com has six brands allowing them to dominate the travel booking industry.

Third-party managers have the experience and specialized expertise to help owners and investors navigate and find opportunities in this complex environment.

Considering third-party hotel management and the expertise, financial systems, digital expertise and supplier relationships it brings to the table could be a prudent decision.

## WHY CONSIDER THIRD-PARTY MANAGERS?

While many franchisees are owner-operators and have the management expertise to be successful, there are always owners or investors that are unable or unwilling to manage the daily operations of the hotel. Operational, financial, sales, marketing and revenue management requires time, energy and a great deal of expertise, this is where third-party managers come into prominence.

Hotels with basic services usually have limited staff and resources and often lack robust financial and accounting systems and expertise in sales and revenue management. Their lack of resources can put them at a significant competitive disadvantage compared to other hotel operators who may have more resources.

# FRANCHISING AND THIRD-PARTY HOTEL MANAGEMENT

## UNLOCKING THE FULL POTENTIAL

Third-party managers are not a competitor to hotels chains – they are complementary. Owing to their close relationship with franchisors, and the relative flexibility of the franchise model, independent management companies have become the key to developing relationships between brands and hotel owners on a large scale.

Third-party managers develop clear relationships with certain brands who fully understand their market positioning and standards, which make them successful in the territories where they operate. With third-party managers assuming the role of the expert hotel manager, the franchisor can concentrate on delivery of the brand whilst knowing that their franchised hotels are in safe hands and are complying to brand standards.

Third-party managers also provide a direct route to hotel investors who have no hotel operational experience who are looking to franchise and therefore are seeking referrals from a trusted intermediary.

By securing a brand through a franchise and engaging a third-party manager, an investor

has the opportunity to brand and outsource management to an experienced manager whose focus is to drive profitability. The hotel investor can benefit from all the advantages of franchising from a hotel chain and benefit from the third-party hotel management expertise.

**Most hospitality consultants agree that the appropriate brand on a hotel may increase RevPAR by up to 21%.**

### **ADDLESHAW GODDARD**

*The Evolution of Hotel Management  
- The Surge of Third-party Management*

The economic downturn due to the COVID pandemic will also lead to an increased adoption of third-party management and franchising. Increasingly, particularly when inexperienced owners are involved, banks are making the involvement of a brand or a third-party manager a condition of funding.

## CHOOSING A THIRD-PARTY MANAGER

A good third-party manager will know where their strengths lie. Some have particular expertise in operating resorts, others focus on limited or select service properties and others have a particular skill in operating hotels catering to the corporate market.

Successful third-party managers clearly understand their own strengths and openly articulate their objectives. The key to identifying the appropriate third-party to work with is to understand the key aspects of the deal and choosing the company whose skills and expertise match whilst ensuring that the owner and the third-party manager's objectives align.

## 1. THE RIGHT SELECTION

The specific needs of an investment must drive the decision about what qualifications, capabilities and skills will be most important to the selection process. Certain operators may struggle to operate a luxury hotel; others may fail because they lack specific market experience rendering local sales completely ineffective. In summary, even a reputable third-party manager may not be the right operator for a specific business.

Factors that should be considered to ensure a third-party manager is suited to the specific investment include:

### PROJECT PHASE

(UNDER CONSTRUCTION, OPEN, STABILISED)

### LOCAL MARKET KNOWLEDGE

### TIER/POSITIONING

### ASSET TYPE

### MIX OF BUSINESS

### BRAND AFFILIATION

### UNIQUE LOCATION

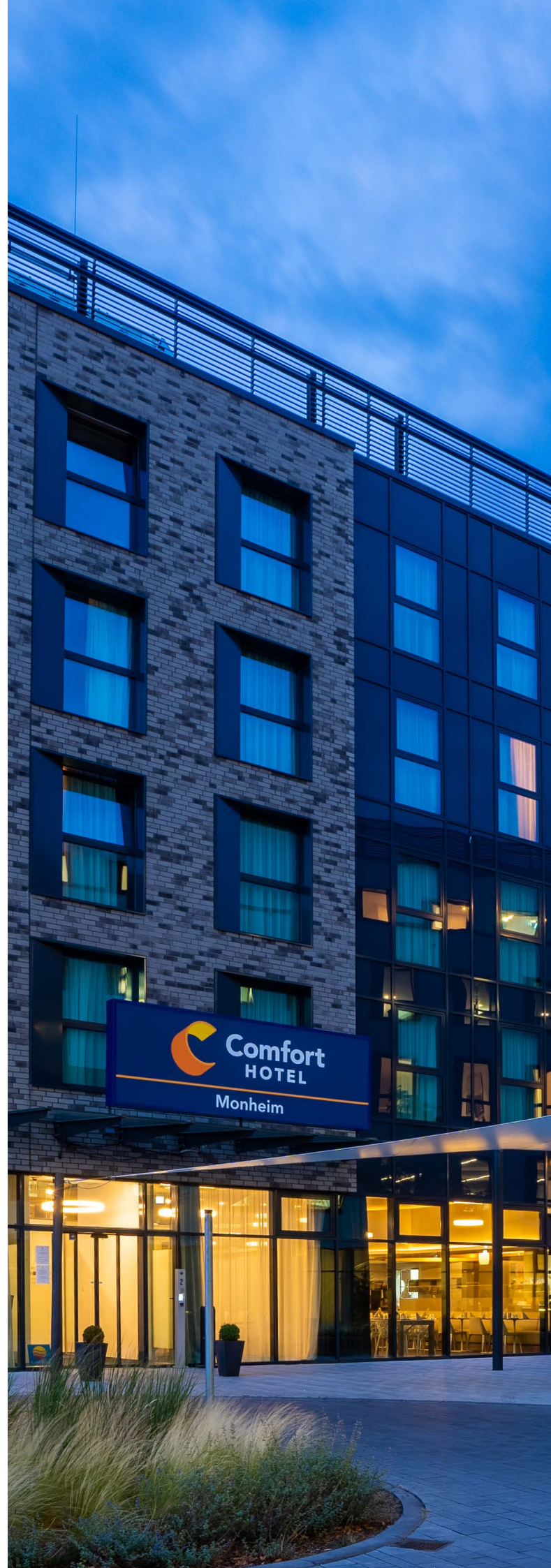
(AIRPORT, RESORT, CBD, REGIONAL)

## 2. ACHIEVE ALIGNMENT

Performance expectations should not only be aligned, but also be reasonably achievable. The operations team who are ultimately responsible for overseeing performance should have a direct influence on establishing performance expectations. This improves reliability of projections and accountability for performance.

## 3. FLEXIBILITY AND AGILITY

Greater flexibility can translate into both revenue and cost savings opportunities. The most successful third-party managers, control properties across multiple brands and understand the need to be nimble, react quickly to market conditions, identify opportunities and take calculated risks.



# SERVICES AND BENEFITS

## OF THIRD-PARTY HOTEL MANAGEMENT

Service	How It Can Help Your Hotel
<b>Professional management and operational expertise</b>	Ensures the smooth day-to-day operations of your hotel by leveraging the expertise of the third-party manager. In general a third-party manager will have more diversified brand knowledge due to the variety of properties they manage and be familiar with the dynamics of the current market
<b>Integrated financial and accounting systems including budgeting, financial statements, payroll, cash flow and auditing</b>	One of the main advantages of working with a third-party manager is their ability to streamline processes and maximise efficiency to increase profitability. Through the integration of a systemised management system, operations can be monitored and changes implemented where necessary, in order to reach KPIs.
<b>Human Resources management</b>	Evaluates the organisational structure to ensure effective resourcing and identifies opportunities to implement wage and service efficiencies. Overall direction, management, training and recruitment of staff to ensure best practice and professionalism at all times.
<b>Procurement and access to preferred supplier relationships</b>	By leveraging purchasing power and corporate relationships, contracts are negotiated at the best market conditions; ensuring access to products with a better control on price, less administration and lower overheads.
<b>Sales and Marketing</b>	Supports all aspects of marketing requirements from strategy creation to design and implementation. Provides access to a professional sales team to help expand sales reach and develop a profitable base business to achieve long term success
<b>Revenue Management</b>	Tracking consumer trends and demands to optimise inventory and price in order to maximise revenue growth.
<b>Industry information technology including property management systems, reputation management, websites and mobile technology</b>	Implementation of high conversion digital strategies, customised development of websites, online reputation management and reporting and providing platforms to make it easier for guests to book hotel rooms.
<b>Benchmarking</b>	Third-party managers are committed to measuring performance and providing performance benchmarks. Efficiency ratios ensure cost savings confirming the property is operating at optimum levels and market penetration reporting certifies positioning in the market.

# HOW TO OPTIMISE PROFITABILITY

## BY PARTNERING WITH A THIRD-PARTY MANAGER:

### 1. INCREASED INVESTMENT OPPORTUNITIES FOR HOTEL INVESTORS

Hotel investors can grow their portfolio by appointing a third-party management company in new destinations. This can be from luxury hotels in primary city locations to economy hotels in tertiary markets which need focused management and more control over operating expenses.

### 2. FLEXIBILITY IN CONTRACT ARRANGEMENTS

There isn't a one-size fits all approach when engaging a third-party management company. Third-party managers tend to be flexible and agile in their ability to negotiate bespoke terms to suit both parties. Investor involvement in daily operations, marketing and staff recruitment remains an option; operating terms are flexible and are generally shorter than a management agreement. Typically, a third-party management company will also take more of a vested stake in the business when their interests are aligned with investors through performance related remuneration schemes.

### 3. OVERHEADS ARE LOWER THAN HOTEL CHAINS OVERHEADS

Although hotel investors who franchise a hotel pay franchise fees and a second fee to the third-party manager, collectively the fees are typically cheaper than appointing a hotel chain under a management agreement.

### 4. INCREASED ROI THROUGH THIRD-PARTY LOYALTY

Appointed for their hands on approach, operational expertise, ability to improve guest experience and overall hotel performance, a third-party manager's priority is to achieve the most profitable operation for the hotel investor. With the third-party manager concentrating on improving the bottom line, lower management costs overall and performance related remuneration structures, the potential ROI to the hotel investor has the potential to be significantly increased.

## IN CONCLUSION

Hotels are complicated investments and selecting an appropriate structure requires research and investigation. The choice of an operator as well as the hotel operating agreement can have a significant impact on cash flow and the potential value of the property.

The use of third-party managers will continue to grow due to the skills and experience multi-brand operators bring to the table. By providing the resources, financial systems and sales and marketing support required to build market share, professional management will ensure the property earns a consistent return.

# PARTNERING WITH CHOICE HOTELS™

You're not in the hotel business for less. You're in it for more. So when looking for an investment opportunity that gives you more of everything it takes to help succeed - reservations, property support, marketing, technology, you name it - you'll find more of what you're looking for with Choice Hotels EMEA.

Choice Hotels properties include 4 different brands from upscale to economy throughout the world that offer a wide variety of choice to meet your needs, budget, segment and market.

Our brand represents value far beyond price and provides amenities in demand by business and leisure travellers, personalized care and attention and loyalty through the Choice Privileges™ rewards program.

The Choice family of hotel brands has over 7,100 hotels worldwide and provides business and leisure travellers with a range of boutique, high quality mid-scale, and economy accommodation options.

Find out more at [JoinChoiceHotels.com](https://www.joinchoic-hotels.com)



## CONTACT US

**Choice Hotels Europe Development Team** - [development.europe@choicehotels.com](mailto:development.europe@choicehotels.com)

**Choice Hotels Middle East Development Team** - [development.middleeast@choicehotels.com](mailto:development.middleeast@choicehotels.com)

**Choice Hotels Africa Development Team** - [development.africa@choicehotels.com](mailto:development.africa@choicehotels.com)

