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# A Dose of Precaution

*Best practices for limiting the pain of an economic downturn*

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**IT'S A PERPLEXING TIME TO BE AN** economist, or a hotelier trying to forecast revenue for the year. The numbers suggest that 2023 will be another strong year for the U.S. economy and the hospitality industry. But as tech companies began a wave of layoffs this winter, there was a noticeable sense of unease among business leaders – a feeling that a recession, hopefully short and mild, loomed on the horizon.

Inflation was down for a sixth consecutive month in January, and the monthly jobs report crushed expectations, with 517,000 new jobs created. Leisure and hospitality led all business sectors with 128,000 new jobs, helping to drive down the unemployment rate to 3.4%, its lowest level since 1969.

Still, with the Federal Reserve raising interest rates and credit-card balances climbing, many economists expect consumers to tighten their belts.

Ryan Meliker, president of Lodging Analytics Research & Consulting, said the most recent report from Moody's Analytics called for a "brief, mild recession in early 2023, but we don't think that's going to translate too much into the hotel industry."

Meliker, whose firm tracks the country's 30 largest convention centers, said first-quarter bookings were up 13% from the same period last year, which should help to offset any decline in leisure travel.

"That's certainly very positive for the hotel industry," he said. "It gives hotels a nice base of demand and more pricing power. The counterbalance is that we think leisure travel will pull back because it's been at unsustainably high levels over the past couple of years, and as that unwinds, that will weigh on some of those regional markets and assets that are more leisure dependent."

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Given all the economic uncertainty, it pays to be prepared for a downturn. Henrik Shimony, chief executive of Reeco, a shopping platform for the hotel industry, said procurement is a good place to start. Shimony, a former hotelier, said many hotels stick with the same suppliers instead of shopping around for the best deals and acquiring goods and services from multiple vendors.

Most of the supply-chain issues caused by the pandemic have receded, and some retailers have excess inventory, so now is a good time to audition new suppliers, Shimony said. If contracts are involved, take the time to review them before renewal time, and shop around for a better deal.

"Local suppliers may give you really good pricing, so try to be more openminded to new, local suppliers," he said. "It's amazing to see how much savings a hotel can get if they shop from more than one or two suppliers, without any allegiance to suppliers. You just want the best deal. It's a free market."

To get more best practices for hoteliers concerned about a downturn, *Today's Hotelier* spoke with Gary Gobin, director of franchise operations at hihotels by Hospitality International and Deborah Friedland, managing director at the accounting and business-consulting firm EisnerAmper.
Here are seven best practices these experts had to offer.

**1) Replenish your cash reserves**

**HOTELS NATURALLY DEPLETED** their reserves during the pandemic, so it's vital that they rebuild them while business is strong. Friedland said a general rule of thumb is for hotels to earmark 3% of annual revenue for their reserves, but that figure might not be right for every hotelier.

"We all have reserve replacement on our [profit-and-loss statements], but sometimes we're not diligent about ensuring that the money is actually there," she said. Gobin, whose hotel company has five economy brands, said that even modest reserve replenishment can make a difference during lean times. "Save what you can," he said. "You're better off putting away 2% than 0%."

**2) Focus on brand image**

**IN A RECESSION**, hotels with the best brand image tend to fare better than their competitors, so take a hard look at your hotel's "online presence, making sure that you're portraying your hotel in the best light," Gobin said.

If the photos on your website and the online travel agencies are old, perhaps now is the time to hire a photographer and update your image, he said. Hoteliers also can pay more attention to online reviews and respond to them when appropriate. Gobin said he often reminds hotel managers to ask departing guests whether they had a great stay, and if they did, to encourage them to leave a review.

"Hopefully, that will improve their star rating, and if there is a downturn, that may give them an edge over their competition that isn't doing that," he said. "A lot of people don't pay attention to their properties' reviews the way that they should."

**3) Remind staff to upsell**

If a downturn is coming, then hoteliers should make hay while they can, Friedland said. That means encouraging staff to upsell guests to better rooms, extended stays, and amenities such as spas and restaurants. Extra revenue now will make it easier to get through a downturn, she added.

**4) Cross-train your staff**

During the pandemic and the ongoing labor shortage, hotel employees who can fill multiple roles have proved invaluable. Your workers may be busy now, but it's important to make time to cross-train them, familiarizing them with front-desk operations, food and beverage, housekeeping, and other operations, Gobin said.

No hotelier wants to be Darwinian, but the reality is that a recession would lead most hospitality companies to lay off workers. Employees who show a willingness to cross train and perform well in those roles make it clear to hoteliers that they should be retained, and rewarded, even during tough times, Gobin said.

**5) Re-evaluate food-and-beverage operations**

Friedland said some hotel clients are seeking to repurpose their large dining rooms due to changing consumer preferences. Fewer guests want to sit down for a three-course meal, and a greater number want to take their food back to their room and stream their favorite television show, she said.

Downsizing a hotel restaurant can free up workers for other roles, reducing the hotel's overall manpower requirements. Hotels can make better use of that space, and consumers get the hotel experience that they want, Friedland said.

**6) Step up your community involvement**

Hoteliers may be able to reduce labor costs by reaching out to local universities that offer hospitality as a major and creating internships and work/study programs, Friedland said.

Similarly, hoteliers should build relationships with local businesses such as wedding venues, funeral homes, and hospitals, recognizing that even in a recession, many people will travel to visit an ill relative, Gobin said.

"It's an opportunity to create discounted business, but it's still business that you may not have during a bad time in the economy," he said. "Creating new relationships can carry you through bad times."

Hoteliers should be active in their local chamber of commerce and other groups and should sponsor local sports teams and school clubs to the extent possible, Gobin said. "The more active you are in your community, the more people will remember you when it's time to do business," he said.

For independent hotels and smaller hotel companies, it might be possible to band together, boosting their purchasing power to get discounts from vendors. Every dollar saved matters when times are tight, Gobin said.

"We may be busy now, but it's important to focus on things that will set ourselves up for success in the future," he said.

**7) Consider tech upgrades**

By keeping up on the latest technology, hoteliers can provide a better experience for guests and reduce their manpower needs, Friedland said. WiFi that's fast, reliable, and free is a must, and more customers are now demanding streamlined processes such as the ability to check in and check out through a smartphone app.

"I just encourage management teams to continually educate themselves on the different technology offerings out there because they're always changing," she said.