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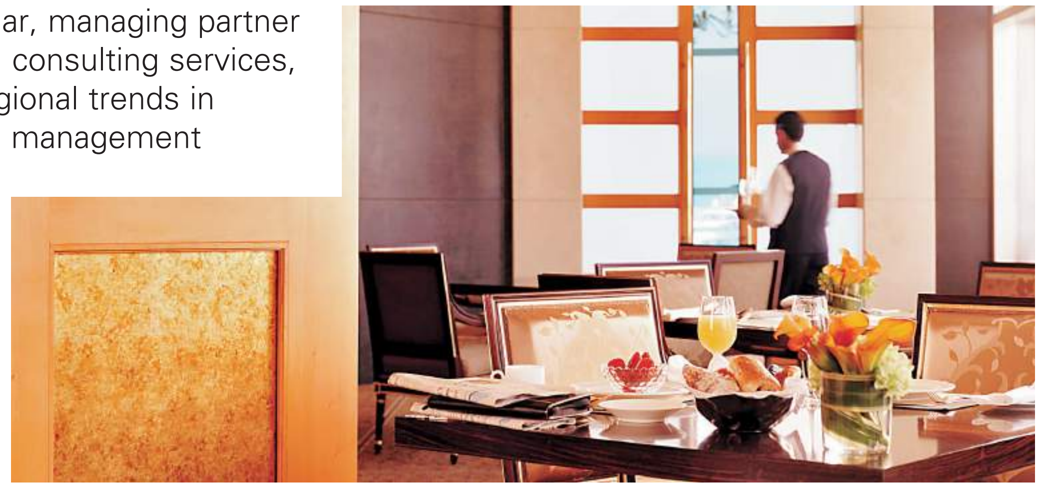
Trends in operational management

Karim Asmar, managing partner at Hodema consulting services, looks at regional trends in operational management



Youssef sat at his desk and looked out from the window facing the Aleppo citadel. He was on the phone fixing an appointment with a Gulf investor in need of a management company for his oriental boutique hotel. Youssef had recently renovated and modernized Beit Haneen, his parents property, and created a style that is attracting discerning ME travelers.

Digital networking: a competitiveness booster

In recent years, a wave of young designers have revolutionized Middle Eastern culture, revisiting traditional icons and creating a new identity. In Aleppo and Damascus, old houses are being turned into charming boutique hotels. Youssef has capitalized on this wave and integrated online communication, promotion, and image management to build the Beit Halab brand. The brand gained fame and demands to flag other properties followed.
Youssef did not expect such success. He is not an hotelier by profession, but had decided to renovate the property mainly as a tribute to the memory of his late father. Now a third generation hotelier, he has decided to develop a hotel management activity.
Thanks to the Internet and the media coverage, his property is now referenced on many hotel search engines. The property's customer success provided it with positive feedback. Beit Haneen's fan club on Facebook exceeds 3,000 members and the brand became an icon for the young and trendy in the Middle East. Youssef is committed to web communication and Beit Haneen has a Twitter account keeping its followers updated on events and happenings. Direct communication to the clients is an essential element of its success and clientele flocks in from Europe, Asia and the Gulf.
The communication channels of the new millennium give an operator a fast track at rivaling international brands. The recent touristic developments in Syria and the trend of renovating old Levantine houses have created an opportunity to develop a hotel operation. Youssef now has a shot at rivaling international lifestyle brand hotels coming to the region.

Regional success stories

Rotana Hotels was established in 1992 with its first property in Abu Dhabi. Rotana, at the time, faced a great challenge with the regional hospitality scene being dominated by international operators such as InterContinental, Sheraton and Hilton. In fact, the InterContinental was the main regional player.

Conventional investor's wisdom considered it necessary to have the safety of an international brand to gather the necessary talent to manage the property, and to market it. Internet was nonexistent, and the access to GDS systems somewhat erratic. Travel agents and tour operators were the key element in generating traffic to an independent hotel. Boutique and lifestyle hotels were viewed as a gimmick by mature western markets. In 1992 it was a daring wild bet to plan the development of a regional player.
Some eighteen year later, Rotana hotels now operates around 68 properties and has proven able to compete with international operators, often achieving better results in their properties. With such a success, Rotana became the benchmark for new operation ventures in the region and hotel operation was no longer a private terrain for international mammoth brands.

With a regional base, Rotana was able to sustain a flat organization and provide a faster response to the market needs. Moreover, the product was developed taking into consideration the specificity of the local markets and the appeal to regional travelers.
Rotana's success spearheaded a change in the regional hospitality scene, which now accommodates regional brands such as Jumeira, Safir and Habtoor.

Real estate driving hotel operation

In the hype of the real estate boom in the region, hospitality operation became an interesting segment for large regional investment groups with diversified investments in real estate and retail. New brands, such as Emirates based and Emaar subsidiary The Address, were born. With the massive real estate development new properties were flagged and operators were created to quickly launch a new brand and flag properties.

John is a seasoned hotelier. During his 35-year career he has worked on all the continents. He started as a busboy in a 300 room Chicago hotel at the age of 18, before joining a cruise company for a few years. Later on, he pursued his career in an international group, getting both know-how and international exposure. He was recently established in the Gulf with the same group he began his career with. At the age of 55 he has decided to take on a new challenge and join an Emirate based group to launch their hospitality activity.

The group invested in several industries such as textile, metallurgy and oil, as well as real estate before taking the decision to invest in the hospitality industry. John was selected as the head of the new operation. The first objective was to manage the properties of the group. The group had already completed three luxury properties in Dubai that were placed under the management of this new entity. The group also had an economy hotel in the pipeline and a further two luxury properties under development. John had six properties to focus on and there was no immediate need to identified new properties outside the group.

Unblocking hurdles in food and beverage development

Raed recently launched his fifth successful food and beverage operation in Lebanon. His operation managed several themes and concepts covering Asian as well as French, Arabic and international cuisine. He started his first operation with personal financing and the Kafalat loan facility. Some five years later, he had created a structure to manage several operations and the company was eligible for a subsidized loan. This allowed Raed to consolidate his operation and focus on the development.

His recent plans involved a development outside Lebanon. After an attempt at franchising, he revised his strategy and decided it was better to have direct involvement in the development and the operations. Raed's revised strategy placed a focus on growing and controlling the resources of the company. Indeed, managing several operations provides depth and possibilities to improve cost efficiency. It also offers possibilities for human resource development.
To guarantee control over the new operations, Raed decided to take a stake in new operations. He presented himself as a full solution provider to investors wishing to enter the food and beverage business. His proposal presented brand, concept and operation. It removed some of the hassle of implementing a new operation, and also provided assurance for the newcomers with regards to the maintenance of the product and the development of the know-how. However, his concern became the identification of the right partners and the installation of the right legal mechanism.

What is next?

The Middle East has proven to be a real land of opportunities for emerging hospitality operators. In twenty years the scenery has drastically changed with international brands no longer being the only significant players. Moreover, some regional players are already targeting development in European and US cities. So far, the Emirates are home to the most flamboyant brands and the highest profile developments. Despite significant success stories in the region many challenges remain. During the hype of the real estate boom, large-scale ventures were multiplied and new brands introduced. In the current context, which increases competition, further changes are to be expected. Large hotel operators may search for consolidation opportunities, while smaller food and beverage operators will consolidate around successful brands.

F&B management solutions

F&B management companies still have room for growth, according to Youmna Maatouk, consultant and Beirut office manager, Hodema consulting services

Franchising in the food and beverage business has been widely spread since the mid-1930s when Howard Johnson's franchised its first restaurant concept.
In Beirut, almost 90% of operational food and beverage outlets are locally developed brands as opposed to franchised ones. Hence, owners of food and beverage brands in the Lebanese capital face two management options: built-in or outsourced management solutions.
Most independent investors prefer allying with established groups or individuals that have developed or those that can develop in-house management solutions, a "built-in management". This is a business strategy whereby the owners handle the operations of their outlets which consists of internally developing and training the human resources team by standardizing in-house developed procedures. In this case staff is operated and hired by the owner or an owner representative. This system usually provides advantages such as flexibility in the management approach and customization of service based on the clientele's needs. In fact, some of the key issues that need to be taken into consideration when outsourcing operations can include the subcontracted organization's culture, the quality of the system of review and control provided, as well as compatibility in the values of the two parties making sure that the management is in line with the owners' vision.
For owners who have insufficient or poor knowledge of the industry, seeking for outsourced management is another alternative that gives them the opportunity to focus on asset management or brand building and development. Those organizations are retained by investors/owners to manage hotels, resorts or food and beverage outlets in exchange for a management-fee. These are agreements between the owners and the management company under which, for a fee, the management company operates the entity. Management companies also handle sales and marketing plans elaboration and the implementation of periodic financial statements and provide regular reporting to owners about the managed entity's performance. Management fees are usually around 5% of sales and an incentive fee is sometimes

Advantages of built-in management

- Creating customized services
- Increasing owner control on operations and financial results
- Diversifying areas of expertise of the owning company
- Allowing flexibility regarding the design, the management, etc.
- Reducing costs since no payment of management fees are involved
- Eliminating contractual limitation in time
- Minimizing risks of conflicts