



News and Articles  
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Closing a Hotel For a Short  
Period  
– is it the right thing to do?

Asset Management  
by Hotel Solutions Partnership



# Closing a Hotel For a Short Period – is it the right thing to do?

### Some things to consider when taking this important decision

**Recent work in Greece has reminded us that in some situations, it is received wisdom that hotels should close for a number of months "when demand is low". The question is, is closing always the best option?**

A hotel is essentially a fixed cost business - the reciprocal being that the marginal cost of a room night or a meal is very low.

Let's just think about the variable costs:

- ✓ Food
- ✓ Beverage
- ✓ Telephone Calls
- ✓ Bathroom amenities
- ✓ Linen laundry
- ✓ Spa products

That's it. So if you close a hotel for a day or for a week, you save next to nothing.

If you close for around a month, you still save very little but you do get the chance to recuperate vacation entitlement and give yourself the opportunity to do some essential Front of House repairs and maintenance, i.e. you manage the balance sheet but not the P&L.

If you close for more than a month, you can choose to lay off some front line staff, perhaps you close one of the restaurants, or close down one of the floors. But the semi-variable costs you "save" will be pretty minimal and in your closing down and reopening processes, you will incur incremental redundancy and training costs.

Whether you close for a week, a month, or a quarter, you need to keep the elevator maintenance agreement in place, the freezers need to stay on as well as the air conditioning, management and the accountants stay, and the marketing team remains in post etc. So in my opinion I don't think there is much scope to save money with semi-variable expenses - there may be some savings, but they won't be huge!

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Section: Asset Management  
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### Closing a Hotel For a Short Period – is it the right thing to do?

Let's use an example: a hotel with €11.5m of revenues, €1.5m of EBITDA and a cost base of €10m. The variable costs might be:

- ✓ Food Cost of Sales €0.7m
- ✓ Beverage Cost of Sales €0.2m
- ✓ MOD Cost of Sales €0.6m
- ✓ Management Basic Fees €0.4m

And let's say another €0.5 can be prised out of the other areas e.g. travel agent commissions.

So the costs we can avoid by closing are just +/- €2.4m out of a cost base of €10m = 25%.

The rest of the costs will continue to be incurred.

If the hotel is closed for more than just a week or two, say for three months, there is some scope to save additional costs. But I suggest it is likely to be less than 25% of the other €8m, so maybe €2m. Because management stays on, real estate taxes need to be paid, insurance and energy needs to be consumed, sales and marketing continues, and the chef and his top team stay in place.

All of these considerations leave me thinking that the costs of keeping a three-month closed hotel ready to re-open are of the order of (€10.4m-€2.4m-€2m) = €6m per annum = €0.5m per month. And that's without the costs associated with closing (redundancy) and re-opening (hiring and training)!

Personally I think this is a cost that a responsible owner would avoid like the plague. So I do not understand why hotel owners and operators decide to close, even for short periods. Even the man in the street will recognise that it is extremely uncommon for hotels to close for a week, and even more unusual for hotels to close for three months.

Do you agree?

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Ian Graham gives his clients high value adding advice, free of all bias, with a passion for the industry that has been slow-cooking for 45 years. He leads and contributes to complex advisory assignments for hotel owners and operators around the world, leveraging his deep understanding of the separate but linked goals of each of the guest, the hotelier, the investor, the lender and the brand owner - and all this from a unique base of experience that has seen him working on hotel issues in more than 60 countries.

Ian has built an unrivalled network of clients, friends and colleagues around the world of hospitality and this has enabled him to create and lead The Hotel Solutions Partnership Ltd under which outstanding teams of consultants respond to tough questions asked by savvy clients.

The business is in its ninth trading year - and has attracted the cream of the world of independent consultants to the network.

In 2011, Ian led teams, or was a team member, on assignments that required him to:

- ♦ challenge the business plan of a Mongolian SPV and in so doing provide the investment appraisal on an accommodation led Private Members Club concept that led to a complete change of direction by the client
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- ♦ support the provision of technology and distribution & e-channel advice to a returning South Korean quoted client
- ♦ lead a team sourced from around the world in the analysis of and then design of a turnaround for a mixed use development in Spain owned and operated by an Irish quoted company that includes hotel, golf, F&B and spa as profit centres
- ♦ provide support to our team that was asked by the client to analyse family based resorts in Central Europe
- ♦ challenge the sales and marketing plans of mid market hotels in Ireland
- ♦ analyse the need for and then create a workout plan for a failing mixed use resort development in southern England
- ♦ mentor the leadership and a senior management team at a Christian retreat in East London that included Ian identifying the need to replace the finance executive as well as introduce a radically different pricing model

And last year, he was appointed as a non-director on the several boards of the hotel developments of the venture capitalist firm Downing LLP. He continues to be the Chairman of the Tourism and Hospitality Special Interest Group of the Institute of Chartered Accountants of England and Wales (ICAEW) as well as being a Visiting Fellow at the School of Hospitality and Tourism at Oxford Brookes University.

In the 1970s and 80s, he was an executive with ITT Sheraton rising to the position of VP Controller Europe, Middle and Africa and then in the 1990's he held the executive role of VP Finance, Legal and IT at Bass Hotels and Resorts (now IHG). From 1999 to 2003 he was a Director in the global hospitality consultancies of Andersen and then Deloitte.

Ian is a Fellow of the ICAEW and holds a BSc in Hotel and Catering Administration from the University of Surrey.

## Areas of Expertise

- ✓ Asset management
- ✓ Brand management
- ✓ Business turnaround
- ✓ Due diligence
- ✓ E-commerce
- ✓ Finance
- ✓ Franchisee and relationship management
- ✓ Hotel operator selection
- ✓ Investment appraisal
- ✓ Market entry and exit
- ✓ Strategic planning
- ✓ Valuation advice



## UK EMEA TEAM

Name: Katrina Craig (CEO)  
Skill Set: Management of Acquisition  
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Country: United Kingdom

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Skill Set: Market Studies  
Country: United Kingdom

Name: Dorothy Cusak  
Skill Set: Brand Positioning  
& Development Feasibility  
Country: Ireland

Name: Douglas Wignal  
Skill Set: Legal/Management Contracts  
Country: United Kingdom

Name: Duncan MacArthur  
Skill Set: Operational reviews  
& SOPs  
Country: United Kingdom

Name: Ewa Kossakowska  
Skill Set: Channel management &  
Sales & Marketing Strategy  
Country: Poland

Name: Frank Coan  
Skill Set: Sales & Marketing  
Action Planning  
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Country: United Kingdom

Name: Ian Graham  
Skill Set: Non-executive Advisory  
Country: United Kingdom

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Country: United Kingdom

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Organisational Design & Training  
Country: Switzerland

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Country: United Kingdom

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Evaluation & Strategic Direction  
Country: United Kingdom

Name: Milos Neumann  
Skill Set: Due diligences to  
support transactions  
Country: Czech Republic

Name: Peter Fitzgerald  
Skill Set: Distribution analysis  
& Strategies  
Country: United Kingdom

Name: Petra Deuter  
Skill Set: Hotel & Resort  
Repositioning & Branding  
Country: Germany/UK

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Skill Set: Risk Management  
M&A & Financial Planning  
Country: Belgium

Name: Richard Coates  
Skill Set: Business Strategy  
Country: United Kingdom

Name: Sami Ahmad  
Skill Set: Business Development  
Country: Kingdom of Saudi Arabia

## ASIA PACIFIC TEAM

Name: David Williams (COO)  
Skill Set: Sustainability, Financial Control  
& Management Contract  
Negotiations  
Country: Hong Kong SAR

Name: Dierdre Renniers  
Skill Set: Concept Studies & Design  
Country: Singapore

Name: Felix Guggenheim  
Skill Set: Technical Services  
& F&B Concepts  
Country: Philippines

Name: Gaby Gambina  
Skill Set: Business Planning  
& Investment Analysis  
Country: Indonesia

Name: Niall Murray  
Skill Set: Gaming, Casinos & Entertainment  
Country: Macau

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Country: USA

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Skill Set: Branding, Strategic Marketing,  
Show & Media Production  
Country: USA

Name: Dave Marshall  
Skill Set: Travel, Distribution, Marketing  
Country: USA

Name: Dennis Nau  
Skill Set: Marketing Entry strategies  
Country: USA

Name: Gideon Dean  
Skill Set: E-Commerce Analysis  
& Strategies  
Country: USA

Name: John Healy  
Skill Set: Change Management,  
Receivership and  
Shared Services  
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Name: Mike Collins  
Skill Set: Operational Analysis  
& Strategy utilising  
Six Sigma  
Country: USA

Name: Ranjit Gunewardane  
Skill Set: Hotel Space Planning  
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Country: USA

Name: Stephan Juliusburger  
Skill Set: Food & Beverage  
Concepts & Evolution  
Country: USA



## Associates

**Hotel Solutions Partnership Ltd. UK** is a network of 35+ expert managers, supervisors and corporate financial advisors working around the world.

The team of Hotel Solutions Partnership brings many years of combined experience in the international owned, leased, managed and franchise branded hotel sector, and all of us are experienced as independent managers. This enables us to understand the client's requirements quickly and deliver this customized project solution. The team is structured into three geographic groups addressing client's needs in the different global regions. Additionally, we partner with a limited number of specialist firms to extend our reach into certain markets.

As individuals and as a team, we have worked in 114 countries; from 2003 the Hotel Solutions Partnership delivered assignments in each of Bali, Belgium, Ireland, Mongolia, Poland, South Korea, Spain and the UK. We are sensitive to cultural differences and diversity and this enriches our work.

The headquarters of Hotel Solutions Partnership is located in London. The partner offices of HotelPartners are located in additional offices in Prague, Bratislava, and Vienna.

## About us

**HotelsConsult.com Ltd. Prague**, the CEE Partner for the effective way of developing your business, we come with flexible solutions.

From 2001, the HotelsConsult draws on a collection of 20+ skilled disciplines to help you maximize operations in your region. Our partnership clarifies the full assistance in *hotel matters* what shall meet the client's requirements on the field of planning, development, construction, innovation and strategic management in the Hospitality, Tourism and Leisure Sector.

We help with all specific requirements within our branch for a short term or long period of time. The technical brand experts are capable of producing helpful activity aimed at realization of construction engineering, cost management, and hotel technology services.

The HotelsConsult.com Company shares its business relations on the territory of Central-Eastern Europe with headquarters located in Prague, Czech Republic; we have additional offices in Bratislava-Slovak Republic, and in Vienna-Austria.

(M.Neumann, ex HSP Vice President 2011-2014)



### Services in A-Z

We partner in following areas of expertise:

Asset management	Hotel contracts negotiation and valuation
Benchmarking performance	Hotel inspections
Balanced investment strategy	Hotel management depth interviews
Basic design supervision	Hotel standards and classification planning
CAPEX plan, pricing	Hotel start-up
Cash-Flow Forecast / 1 property	Innovation management
Cash-Flow Forecast / hotel portfolio	Investment consultancy
Coaching strategy	Investment credit support / Business Plan
Competitive Cluster	Investment credit support / ROI
Construction cost engineering	Hotel Forecast, ROI Valuation
Control system and pricing policy strategy	Investment credit support / Construction
Development strategy	Budget Appraisal
Due diligence operational and finance	Investment credit support / Project
Environmental site analysis	Concept introduction
E-Promotion and HTML creating	Management contract supervision
Equity and debt scenarios for bank	Profitability analysis of Mergers & Acquis.
EU Grants / Structural Funds in Tourism	Project supervision
Feasibility analysis of construction concept	Real estate appraisal
Feasibility analysis of the hotel profitability	Risk and sensitivity analysis for investor
Feasibility of investment	Risk sensitivity analysis processing
Fee structure analysis for investor	ROI valuation
Floor plan of hotel operational system	Short-term hotel management
Franchise relationship management	Site and environmental analysis
GOP valuation / 1property	Standard operating procedures
GOP valuation / hotel portfolio	Technical and financial supervising
GOP valuation for hotel franchisor	Technical, operational Due Diligence
Historical accounting data analysis	Tender management services
Historical PMS data analysis	Turn-key construction and FF&E pricing
Hospitality business intelligence	Turn-key construction pricing

At HotelsConsult.com, excellence in service providing is our principle goal; sharing of experience on best practice comes from the hotel management, from the business development of franchise corporations, from the project finance, and hotel pre-opening.

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A Partner for the effective way of developing your business; we come with flexible solutions.