# FOCUSED

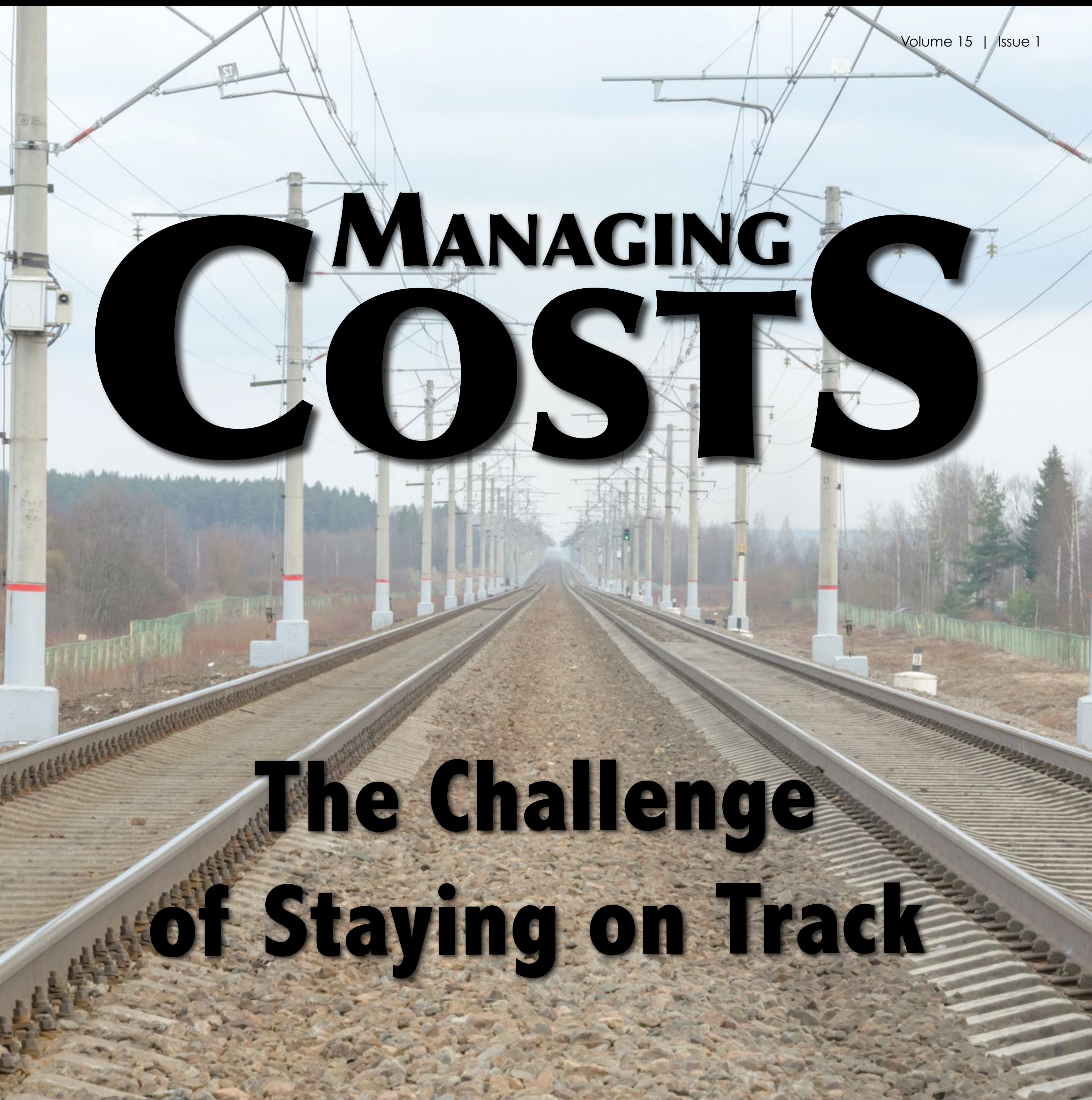
Cost Management That Carries You Forward

Four Steps to a Bigger Bottom Line

Cost Managment Q&A: KSL Resorts

Cost Controlling Trends with Staying Power

Volume 15 | Issue 1



# Managing Costs

## The Challenge of Staying on Track

# Contents

03 Cost Management That Carries You Forward

06 Four Steps to a Bigger Bottom Line

11 Ask An Expert: A Cost Management Q&A with KSL Resorts' James Struthers

14 Cost Controlling Trends With Staying Power

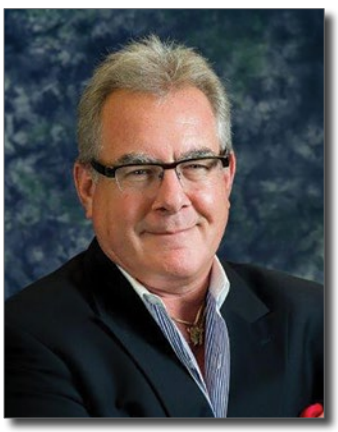
**FocusED is published by UniFocus and highlights topics of interest to labor-intensive, service-oriented businesses.**

**For comments, suggestions for future articles, or additional copies of this publication, contact us at info@unifocus.com. www.unifocus.com**

**Editors:**
Alyson Lynch
alynch@unifocus.com
Julie Leake
jleake@unifocus.com

**Contributors:**
Mark Heymann, Dave Gates, James Struthers, David Phillips

# Cost Management *that carries you* FORWARD



Mark Heymann
CEO, UniFocus
972.512.5105
MHeymann@unifocus.com

**The focus of this issue is cost management, and as the title suggests, it is critical to achieving solid bottom line performance. The included articles and commentary look at cost management from a few different perspectives. The key, as I believe you will see from the articles, is you simply cannot take your eye off the ball.**

As a result, many organizations have specialists that manage one specific aspect of the business, such as revenue managers, customer service experts, quality assurance staff, labor managers, and food and beverage cost managers, to name a few. However, the departmentalization of revenue and cost management has precipitated distinct approaches, systems, and information that can be too singularly focused and can, in many cases, hinder optimization opportunities.

What I propose is a more integrated approach that leverages information from the different areas. This integrated approach would intertwine system data to enable better decision-making, regardless of the primary purpose of that data. If the data was viewed from more of a multi-dimensional perspective, results could be improved.

One way to do this is by using forecasts that are primarily generated for labor planning and scheduling in other areas. There is no doubt that a more accurate forecast can improve labor schedules and achieve lower operating costs through better efficiencies, but if taken a step further, a forecast by time segment of the day, such as 5, 15 or 30-minute increments, can be even more useful than just in labor scheduling and cost management. Now, let's take a look at how an accurate forecast can impact the overall business:

1. Improved service quality can be achieved by having staff available based on when a customer wants to be serviced (think seated) instead of when the staff is available due to non-pattern related staffing. This improves quality and can reduce queuing, which can lead to higher revenue and higher intent to recommend. Customer satisfaction data can then be viewed by time period to assess service conditions and staffing levels to better understand what is driving perceptions.
2. The use of a forecast coupled with menu distributions can improve the food ordering process by more accurately determining what items are needed and in what quantities. This can reduce dependence on par level ordering, especially for fresh product, thereby improving product quality, reducing waste, and enhancing the customer experience.
3. Waste in fast food operations, where product can only sit for a certain period of time before it is discarded, can be reduced. A better forecast, coupled with item mix, can improve the timeliness of item production, leading to reduced waste and lowered food costs.

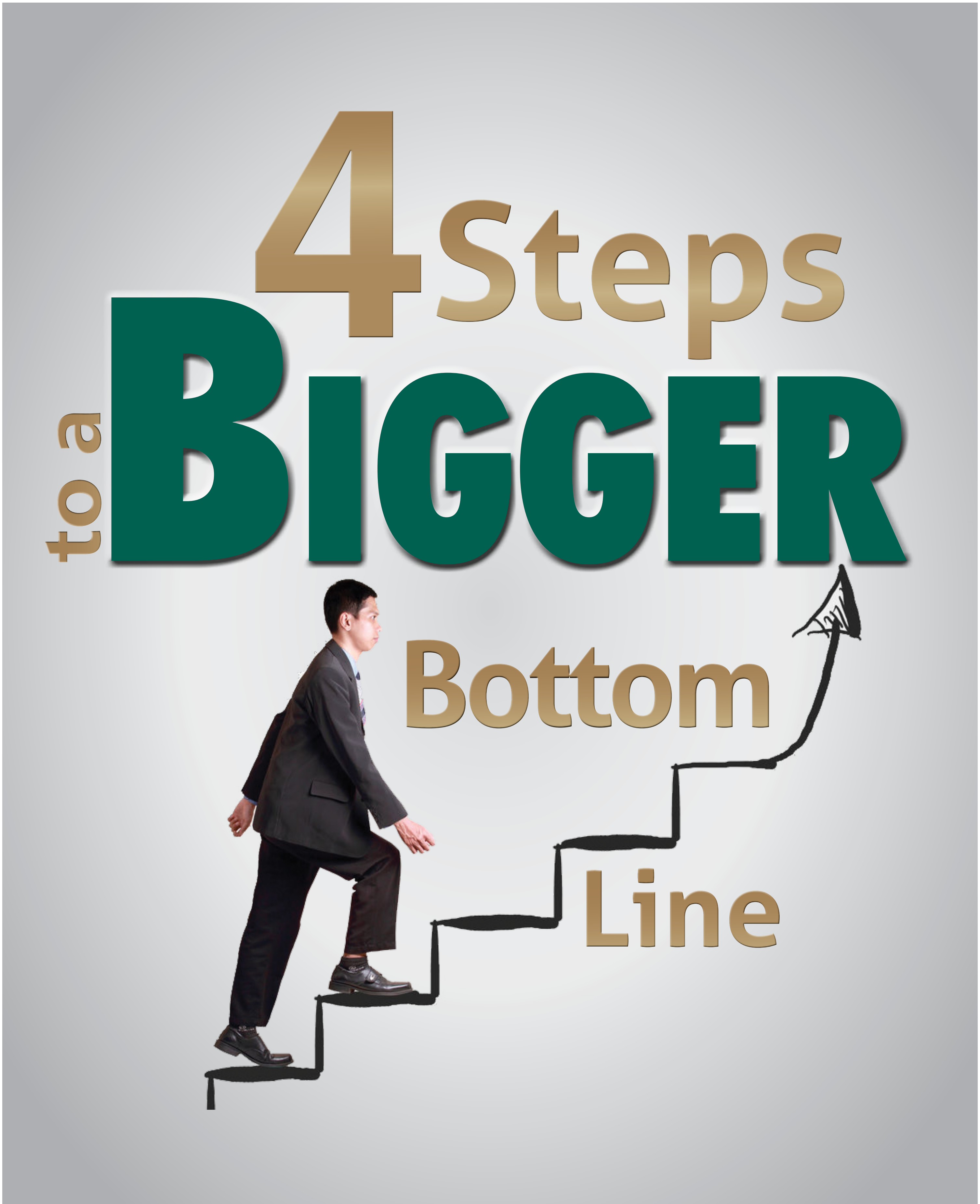
These are just a few examples related to a forecast whose primary purpose is better scheduling. Another quick example is the use of menu mix. This is primarily focused on food cost and the generation of what the optimal (standard) cost should be compared to the actual cost. Interestingly, one can use menu mix during different time periods of the day to impact kitchen and front of the house labor needs. If a restaurant defines dinner as 5pm to 12am (closing), staffing for the kitchen will primarily focus on full dinner meals and, therefore, create a specific need for labor. However, if the operation looked at its menu mix from 5pm to 9pm and 9pm to closing, a different picture often arises. More main courses are ordered until 9pm (higher percent of dinners), and more of the lighter appetizers and desserts are ordered from 9pm to closing. This change in mix and the required work creates a different staffing need, which can result in lower operating costs during the period before closing.

I have only noted a few examples of integrating and cross-utilizing data from disparate systems. There are many other data sets that can be used across multiple departments, such as employee engagement, customer satisfaction based on the meal period, items purchased (think POS data) and many others. In summary, a more holistic view of data and fuller integration can, and will, improve cost management and lead to improved bottom line results.

Hope you all enjoy this edition of FocusED.

Best regards,

Mark


4 Steps
to a
BIGGER
Bottom
Line

We all make spending decisions every day, whether it's choosing between domestic beer and more expensive local-brewed IPA or finding the service provider that offers the best price on telecommunications.


And as people start careers, or launch and grow a business, they tend to know where every dollar goes. Over time, however, as income increases or the business grows in size, they focus less time on their spend. This isn't to say they don't check their account balance or the bottom line of the profit and loss statement for the month, but their attention tends to shift to other items and they ignore the details.

Over the course of my own career, I have helped individuals and organizations control spend, saving anywhere from a few thousand dollars per year for a family of four to hundreds of millions for large organizations. Here are a few tactics I share with my clients to improve profitability. They can be applied both to personal and business spend:

David Gates
Partner, Fixmyprofits

UNIFOCUS

# Step 1.

## *Identify Your Spend List*

Make a list of any monthly spend that is a recurring charge. This list should include items like utilities, services, licenses, rent, laundry, and any other charge that happens on a regular frequency, whether it's monthly, quarterly, or annually. Alongside each recurring item, note the cost, frequency, contact information, contract renewal date, and any other pertinent details.

# Step 2.

## *Look for Easy Opportunities to Save*

The goal here is to identify opportunities for instant savings that can be scooped up quickly and deposited to the bottom line. You might need to create categories and take a section at a time, depending on the size of your list. As you review each item, ask yourself a few questions:

- Do you still use the service? You might be surprised by how much money gets automatically deducted for subscriptions, for instance, that you have forgotten about and no longer need.
- Is there an alternative free solution to the service or product? Particularly in the technology area, there are plenty of free software options that provide the same solutions as paid software.
- Have you compared your spend to prices from multiple vendors within the last two years? Your suppliers aren't likely to approach you unprompted with an offer to lower their price. Shopping multiple vendors gives you leverage on price and quality of service.

# Step 3.

## *Take a Deeper Dive*

These next few questions might challenge you to review your business processes and what is important to the brand or to you.

- How important is the product or service to your customer experience? Would customers miss it if you removed it? Do you really need it? Be very cautious with this one – you don't want to diminish the quality of your brand in order to save a buck.

- Can the service be done by your employees without impacting their primary responsibility? You might find that someone on your team has the skills to complete a service for you at less cost than an outsider, and that you can schedule that service during slow times.

- Is it cheaper and better to buy versus make a particular product? Understanding the real cost of a product delivered to a customer is very important. You should always add the cost of materials and labor to determine the total cost of an item. If you serve food, you should complete this exercise for each menu item or condiment.

# Step 4.

## *Prioritize and Act*

By now you should have a list of items that you can focus on. At the top of your list, put the items that can be dealt with quickly and give you the biggest return. Below those, list the items that warrant a more cautious approach to avoid negatively impacting the customer or employee experience. Start at the top of your list, take action and correct the spend.

Make it a habit to repeat all four steps on a regular basis to prevent your spend from creeping upward un-noticed. And finally, be sure to put in writing how you plan to spend the savings!

## Author's Bio

*Dave Gates, Partner, Fixmyprofits*

*www.fixmyprofits.com | www.linkedin.com/in/davegates*

*Dave Gates is a veteran operations executive within the restaurant industry who helped grow the Red Robin brand from a private company of 50 restaurants to a public company with over 500 restaurants. Throughout his career, he has been able to develop sales, people, and profits by connecting people to purpose, focusing on key small details, and delivering excellence. He has extensive experience building and managing restaurant operations teams, planning and implementing major projects and technology, and opening new restaurants. Dave is currently a Partner at Fixmyprofits where he helps other companies overcome their barriers in building sales, taking care of people, and generating profits.*


# A Cost Management Q&A with KSL Resorts' James Struthers

For expert advice on cost management strategies in the hospitality world, we turned to James Struthers. Struthers has served for more than a decade as CFO of KSL Resorts (KLSR), an independent, full-service hospitality management and asset management group with a specialty in operating large and complex independent resort properties. KSLR has a reputation for industry-leading margins in operating its businesses with multiple and diverse revenue streams. Prior to joining KSLR, Struthers was the CFO of London-based Orient-Express Hotels (now called Belmond), a U.S. public listed company that operates in more than 40 countries around the world.

**Q. How have your cost management practices evolved over the past five years?**

Technology has evolved significantly over the last five years. Systems such as labor management and purchasing have become more real time, interactive, and sophisticated. We have invested in these systems at our properties and have seen benefits in efficiency and cost savings.

**Q. What is your biggest hurdle when it comes to managing costs?**

In our experience, it is a question of the culture within a property. We have acquired resorts in the past that were hampered by a poor culture of cost control and accountability. In a large resort environment, it takes longer to change a culture than it does to put in a new system. However, once that change occurs, the results are very positive, including significant improvements in efficiency, reduced costs, and improved service scores. It is very important to keep reinforcing the new culture from a senior leadership level. Otherwise, poor practices will creep back in.

In a large resort environment, it takes longer to change a culture than it does to put in a new system.

**Q. How have you used technology to your advantage in controlling costs?**

By investing in up-to-date, real-time, sophisticated systems in labor management and procurement. Also, having access to detailed financials is imperative. This seems obvious, but we are sometimes surprised when we're acquiring a resort by the poor level of detail that the historic financials include regarding KPIs and/or level of cost detail.

**Q. What's the biggest mistake you've seen (or made) in managing costs?**

A lack of focus on costs and efficiency is the biggest mistake we see. Never take your eye off that ball.

**Q. How much emphasis have you put on managing labor as a way to improve your bottom line?**

Payroll and related costs are the largest single cost of the resorts that KSL Resorts manages. Labor typically accounts for 35 to 40% of total costs. A 10% improvement in efficiency within labor leads to significant savings, so it receives a lot of focus and attention within KSLR.

**Q. What is the most important change you've made in your approach to managing labor that has driven better bottom-line results?**

Implementing a labor management system at our properties and reviewing the accompanying, current labor management standards has been the most impactful change for us. In our view, the standards and system go hand in hand; a system with inappropriate standards is worthless. These standards also need to be challenged and tested on a regular basis. Secondly, we created a dedicated role within finance at each property that is responsible for producing reports and analyses from the labor management system and organizing weekly labor meetings to review actual labor against forecast, future forecasts, and so on. While this is an analytical role, the person who takes it on must be able to communicate to managers within the organization and hold them accountable. This role is supported and reinforced by the general manager and the CFO joining the weekly reviews. Labor management should be part of the culture of the property and

**Having a cost-control and efficiency culture with accountability throughout the property is fundamental.**

be reinforced relentlessly by leadership. This also extends to ensuring that salaried managers are set at an appropriate level; we achieve this through benchmarking analysis drawn from our history of operating.

**Q. From a percentage standpoint, how much savings have you realized since making those changes?**

We typically see an improvement in efficiency, measured in overall hours of 5-10%, with the higher savings typically being achieved in newly acquired resorts.

**Q. How do you manage to reduce costs without negatively impacting service?**

In our experience, being efficiently organized in terms of working practices and labor management improves service. Poor labor management practices and inefficiencies generally lead to poorer service levels. We also have a strong service culture throughout KSL Resorts. We train 4 Keys throughout the organization for creating guests for life – warmth, personalization, awareness, and proactivity. We also are passionate about operating a talent-based organization. This means hiring the right people for the right role, identifying talent within the organization, and working hard to retain it. A talented person in the right roles will be more productive than someone who is in the wrong role.

**Q. How do you manage to reduce costs without negatively impacting employee morale?**

There is a big difference between being efficient and being understaffed. The latter leads to team members being unable to complete their jobs, resulting in direct feedback from disgruntled guests. Nothing is worse for employee morale than this experience. We aim to have the right team members in the right place at the right time.

**Q. What's your best advice for how to successfully control costs?**

Having a cost-control and efficiency culture with accountability throughout the property is fundamental. It is poor cost-control practice to prepare budgets and forecasts as a desktop exercise in the finance department, merely increasing costs by inflationary factors or some other Excel formula. Instead, managers need to take a zero-based workbook approach to putting together their budgets and be able to explain their actual costs and forecast.

# Cost Controlling Trends

# With Staying Power

by David Phillips

My career in the workforce management industry has spanned almost 30 years and many different roles, including sales, consulting, and project management. During this time, I have seen tremendous changes in technological tools, employer/employee attitudes, and methodologies around cost management. For example, in times of strong economic growth, many companies focus on growing the top line, which frequently leads to creeping operating costs. When economic growth slows or suddenly drops, as it did with The Great Recession, this cost creep becomes the focal point. Now, with The Great Recession still in recent memory, slowing RevPAR growth, and some economic uncertainty surrounding the election of a new president, many hospitality organizations have already started looking to control costs. Mobile use, environmental initiatives, and employee engagement are some of the areas being targeted to align costs.

## *The Mobile Advantage*

Hotels are increasingly turning to technology to assist in managing costs, and with the growing number of millennial consumers, mobile technology is no longer a "nice to have" but rather a required standard. Some hotels now offer guests the ability to make amenity requests via a text message, which reduces the number of front desk employees needed for fielding calls. The move to mobile is also a chance to make a hotel brand's mobile app stickier. Hotels offer mobile check-in and the ability to use digital room keys via their mobile app. While this again reduces the number of front desk employees needed, and enables a more convenient experience for the guest, it also provides another customer touch point.

Many hotels are also promoting the growing use of their mobile apps by offering a guaranteed lowest rate for loyalty members in order to avoid paying costly OTA commissions. According to a recent AHLA report titled Demystifying the Digital Marketplace, "The revenue retained by U.S. hotels after paying all customer acquisition costs declined by almost .4% or $600 million" and "that $600M in additional cost would have contributed directly to net operating income."

By encouraging direct bookings, hotels are starting to chip away at the $600 million. In addition, the increased use of their mobile apps is building guest loyalty and improving direct-to-consumer marketing opportunities.

## Environmental Actions

In addition to reducing costs, eco-friendly initiatives can be leveraged for brand reputation. Nielsen's Q1 2015 Global Survey of Corporate Social Responsibility found that an increasing number of millennials are willing to pay extra for sustainable offerings. But hotels don't have to install solar panels or start composting to save energy and demonstrate environmental friendliness. Some simple but effective ways to reduce costs and energy consumption include:

- Installing energy-efficient lighting systems, such as compact fluorescent lights (CFLs) and light-emitting diodes (LEDs), or adding occupancy sensors.
- Reinforcing the caulking or weather-stripping around windows to reduce air leakage. Window coverings can also reduce heat loss in the winter and heat gain in the summer. By simply having housekeeping partially close the curtains as part of their room duties, you could save on energy costs.
- Installing low-flow showerheads and water-efficient toilets to save water.
- Encouraging guests to re-use towels and bedsheets. This requires very little effort and reduces water consumption significantly. Water-saving notices in bathrooms, too, have been proven effective, according to a 2015 Cornell Hospitality Report.[1]

[1]Bruns-Smith, A., Choy, V., Chong, H., & Verma, R. (2015). Environmental sustainability in the hospitality industry: Best practices, guest participation, and customer satisfaction [Electronic article]. Cornell Hospitality Report, 15(3), 6-16.

• Ensuring staff is properly trained on equipment so that it runs as efficiently as possible.

• Encouraging staff to be efficient in their energy use by turning off lights when they leave rooms and only using as much water or paper as necessary.

## *Employee Engagement*

Companies with engaged employees are more productive, have lower absenteeism and turnover, and enjoy higher guest satisfaction rates. Improving employee engagement can save a hotel not only the high cost of employee turnover, but it can increase revenue as well. In order to determine overall engagement levels and define a precise action plan, it's essential to survey your employees with a robust survey tool. In the past, companies surveyed their employees once a year, implemented new initiatives based on survey results, and then waited until the following year's survey to determine if the initiatives were successful. To truly understand your employee engagement, it is critical to not only survey once a year for planning, but also provide pulse surveys periodically to cross sections of employees that measure the impact of your engagement plan. An analysis of trending throughout the year allows companies to react to problem areas sooner and keep engagement levels higher.

There are also tactics that can be implemented at any company, at any point, and are proven to improve employee engagement.

For example, employees want to feel valued and appreciated, so calling them out for their accomplishments is an easy way to improve engagement. This recognition can be one-on-one or in front of the team, department, or company. Simply saying "thank you" goes a long way.

Furthermore, feeling part of a team is an important element to employee engagement, so show employees that they're a trusted part of the company team by being transparent about business decisions, strategies, and financial performance. Open communication is not only a free way to improve employee engagement in the short term, but it also opens the door to sharing ideas that could improve the business in the long term. Volunteering together and having friendly contests are also fun and cost-effective ways to encourage team building and improve morale.

Another way to grow teamwork is through a better understanding of others' roles. This can be accomplished through cross-utilizing employees – strategy that also improves productivity, reduces costs, and enhances employee engagement. Accomplishing personal and professional goals is a key element of employee engagement, and cross-utilization allows employees to learn new skills and get a better understanding of the organization's operations.

As the impact of millennial employees continues to grow, so will the importance of being a socially responsible company. When millennials believe the company they work for has a cause, they are more passionate and motivated, which in turn improves productivity and lowers overall company costs. It is important to understand that for millennials, "having a cause" means not only donating money but actually identifying and promoting areas of the company itself that are positively impacting the external world. These actions make your company a more desirable place to work, and a desirable workplace fosters higher employee engagement, which impacts your bottom line.

## *Looking Forward*

As technology and the economy change, so will cost-controlling measures. With big data and rapid technology growth, it will be exciting to see what new cost management ideas develop over the next few years.

**About the Author**

*David Phillips, EVP Business Development at UniFocus, has almost 30 years of experience in driving company growth through HCM/PR analysis for clients. His expertise is in business process flow analysis, based on industry benchmarks, in Workforce Management/HCM/PR/Time and Labor. He has thorough experience in directing implementation, project management, and assurance of meeting client expectations while staying within budget. David earned his Bachelor of Science in Management and Accounting from Central Connecticut State University.*

UNIFOCUS

Optimizing Workforce Performance

2455 McIver Lane
Carrollton, TX 75006
972.512.5000
www.unifocus.com