



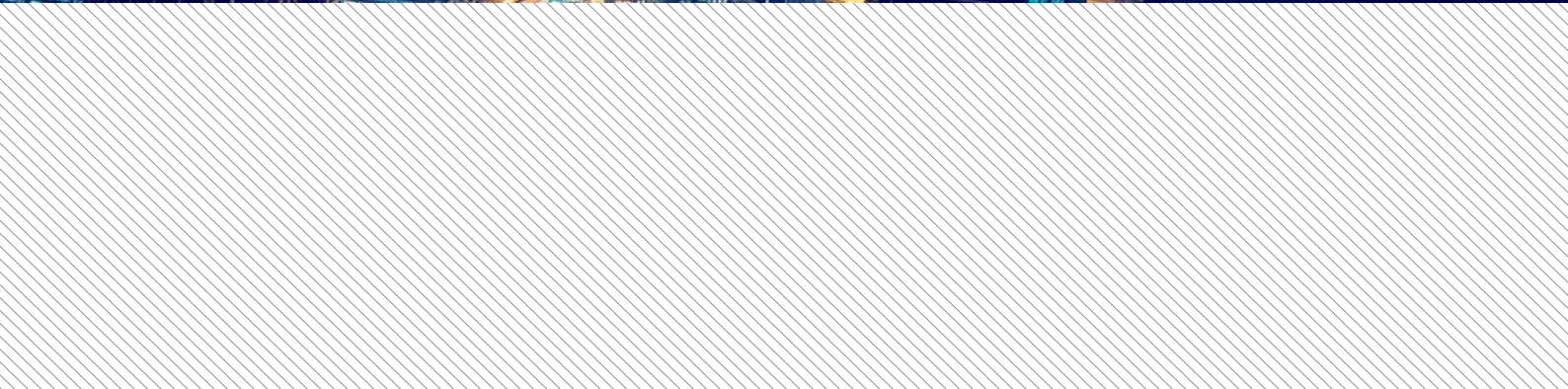
TFG
ASSET
MANAGEMENT

Appreciating Properties

Hotel Pre-Opening Strategies

2015

How to devise successful pre-opening
strategies in a timely and efficient manner



About TFG Asset Management

TFG Asset Management specialises in hotel asset management and its primary objective is to maximise the hotel owner's return on investment. The company assists with every aspect of a completed hotel development and acts as an intermediary between owner and operator, with a view to aligning the interests and profitability of both parties.

TFG Asset Management currently manages three hotel apartment projects offering a total of 918 keys and will add four new hotels to its hospitality portfolio by the end of 2018. The company employs an experienced Asset Management team and partners with some of the foremost hospitality brands in order to position and manage its projects with future growth in mind.

TFG Asset Management's main roles include the daily control of hotel operations and the provision of strategic solutions to enhance revenue generation and property values, ensuring they exceed owner expectations.

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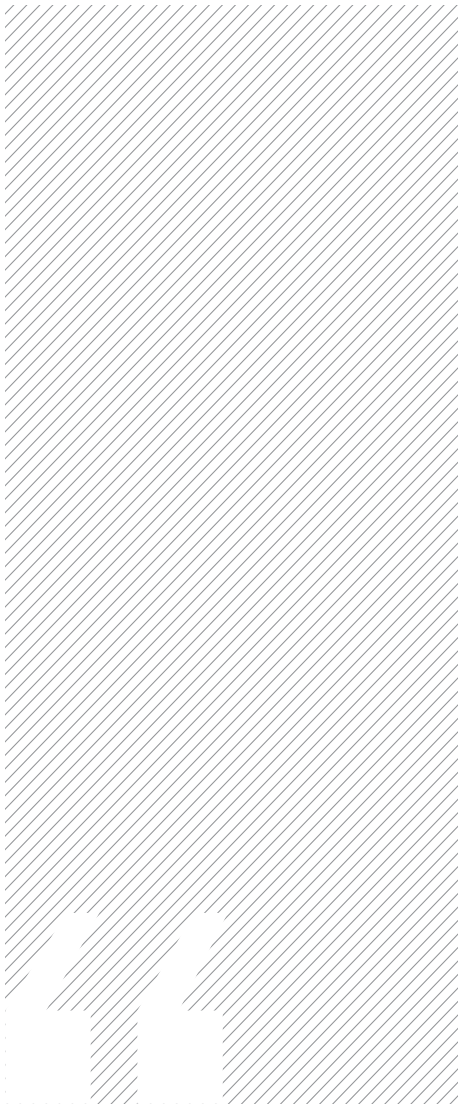
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- 6) Mr. Vincent Miccolis**
– Area General Manager of The Ascott Limited, Gulf Region

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Introduction & Objectives



“In order to excel and compete, hotel brands must continue to expand their footprints and adapt to meet new challenges”

The hospitality industry is never static but rather shaped and driven by the dynamic, ever-evolving environment in which hotel properties operate. In order to excel and compete, hotel brands must continue to expand their footprints and adapt their commercial strategies to meet new challenges.

More than 6,405 keys will be added to Dubai’s existing pipeline of approximately 64,900 keys by the end of 2015, with plans to add 20,000 more rooms by 2020, according to Dubai’s Department of Tourism & Commerce Marketing (DTCM), highlighting the emirate’s burgeoning inventory supply growth. The majority of the upcoming hotels will be operated by well-recognised brands. However, while many of these hotel management firms have solid hotel opening experience, the reality is that most pre-opening activities are often delayed, leading to a negative impact on key financial metrics and hotel brand image and equating to missed opportunities.

There are five critical phases of the hotel development process comprising:

- 1) Conceptualisation** – the initial stage when the site has been selected and the concept, basic strategy are being developed to meet agreed targets;
- 2) Site Appraisal & Feasibility Study** – the evaluation of the viability of the hotel project. Consulting the authorities is essential during this stage;
- 3) Design & Evaluation** – the initial drawing, planning and technical functions to be submitted to obtain final approvals from the authorities;
- 4) Construction** – all equipment, buildings and plants must be checked before being commissioned;
- 5) Pre-opening Activities** – this takes place post-handover from the building contractors. Preparation for the hotel opening including hotel positioning, staff recruitment and alignment of operational standards that are necessary for the hotel to function (Baker, 2000).

According to PricewaterhouseCoopers (PwC) research, more than 60% of project failures arise during the fifth phase - the pre-opening stage. There are three main reasons for this:

- 1) Missed deadlines** – occurring as a result of various delays impacting pre-opening activities;
- 2) Changes in scope** – sudden changes in goals, deliverables and tasks;
- 3) Deficient resources** – insufficient tools to complete a specific task on time (PwC, 2007).

This research paper, penned by TFG Asset Management, will focus on the fifth phase, identifying and discussing the strategies necessary to address the most common pre-opening issues that arise.

In order to enhance the precision of this research paper, TFG Asset Management sought input from a panel of hotel pre-opening experts. We consulted six experienced Hospitality Senior Managers (HSMs) to discuss hotel pre-opening challenges and strategies. The HSMs provided anecdotes from their storied careers, shared their challenges and gave effective advice regarding the subject. Their responses are compiled and illustrated as pie charts in tables 2,3,4,5,6 & 7.

In addition to the valuable discussions with HSMs we interviewed our Head of TFG Asset Management, Mr. Mariano Faz. We also consulted Ms. Katie Kuuskler, Head of Procurement at The First Group, and Mr. Bhuwan Puri, Group Legal Advisor at The First Group, in order to improve our depth of understanding of Equipment Procurement and Legal Requirements.

Conflicts in a Hotel Management Contract (HMC)

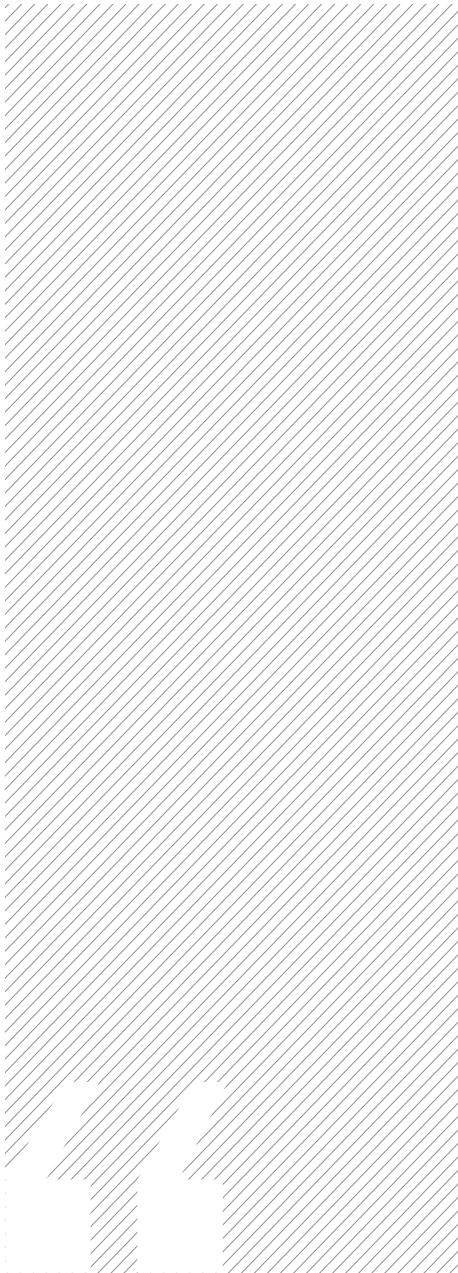
The emergence of the “asset light” era demands a strong commitment and enduring partnership between the hotel owner and hotel operator in each phase; pre- and post-opening. Both parties often grapple with numerous issues due to disparate interests. The challenge is to overcome these internal roadblocks. In order to mitigate unwanted conflict, the hotel owner may appoint a dedicated HAM. The role of a professional HAM is to act as a conduit between the owner and the operator to reduce disagreements arising between the two parties. The HAM is responsible for developing solutions to operating challenges and providing prudent management and control of the hotel operator’s expenditure.

Under the Hotel Management Contract (HMC), conflicts between a hotel owner and hotel operator can be grouped into three main categories:

- **Level of control and influence:** There is an ongoing debate over to what extent a hotel owner should take control before and after a hotel opening. Historically, HMCs have heavily favoured management companies. However, since the mid-1980s, the relative bargaining power has shifted towards the owner as a result of the rise in the number of hotel management companies and the growing popularity of the asset management concept. Establishing a way to optimise the division of responsibility is highly critical to ensuring the operator’s corporate-level strategies are adhered to, yet well adapted to the local market (Xiao et al, 2012). It is the reality, specifically in Dubai, that the owner has a higher authority line and degree of influence during the pre-opening and opening phases. They approve and provide budget for every activity, ranging from staff recruitment to procuring Small Operating Equipment (SOE), hence they have the right to monitor the operator’s strategies. However, in a classical scenario, this role shifts after the hotel opens. Being an expert in hotel management, the operator has exclusive control over hotel operations. Nevertheless, major decisions and strategies such as entering into any food service operation agreement or a commercial activity on the hotel premises must be approved by the owner.

It is critically important that the hotel owner hires a professional HAM to represent it. The HAMs are the specialists in hotel management and their main responsibilities include:

- 1) Controlling the hotel operations strategy;
- 2) Minimising unnecessary expenditures;
- 3) Enhancing the property value;
- 4) Boosting financial performance.



“All stakeholders work towards the goal of ensuring the hotel is a profit-driven entity, thus generating high ROI”

The HAM also acts on behalf of the hotel operator because it is easier for the management company to discuss issues and strategies with an expert in this field, rather than the owner.

- **Brand standards:** All stakeholders work towards the goal of ensuring the hotel is a profit-driven entity, thus generating high Return On Investment (ROI). However, strategies to achieve these mutual targets will vary. An owner’s perspective is focused at property level whereas the operator takes into consideration brand reputation on a global basis, thereby adopting corporate-level strategies. The challenge for the appointed HAM is to find an equilibrium between the operator’s wish to achieve uniformity and the owner’s desire to meet the needs of the local hospitality market. The HAM must decide how much the global brand standards apply to the property in question.
- **Budgeting process:** It is the owner’s obligation to finance the hotel operation and to provide the necessary working capital. The owner aims to minimise its overall financial requirements and prioritises the enhancement of the property’s appeal compared to its closest competitors, which will ultimately generate higher guest spend. The HAM is best positioned to balance the interests of the hotel owner and operator respectively. The Asset Management team will suggest a reasonable, justified budget based on the hotel operator’s original proposal. According to Bolz, the process of preparing the budget to submitting the proposal and gaining approval can take two to four months.
- **Pre-opening budget:** During the hotel pre-opening stage, the hotel operator is required to prepare a pre-opening budget, which estimates the expenses for various activities, e.g. staff recruitment, SOE supplies, etc. Conflict arises when the hotel operator over-budgets its expenditure, while the hotel owner aims to minimise the spending allowance. When consulting the HSMs on effective methods to tackle this issue, the majority advised the need to be completely transparent with every ongoing activity at the hotel to ensure all expenses are well justified and presented to the hotel owner. Miccolis suggests asking a member of each department to create a budget for that particular department. At The Ascott Limited, these members are referred to as the Pre-Opening Champions. These “champions” are given training by “guardians” from the Singapore head office to create a feasible and realistic budget. Sales & Marketing remains the most costly department during the pre-opening stage, followed by Human Resources.

It is the responsibility of the appointed Asset Management team to resolve conflicts between the hotel owner and operator. This will strengthen the mutual understanding of each party’s operational obligations and constraints. A strong partnership will minimise the potential for any issues delaying the hotel's opening. In order to avoid conflicts, apart from employing a HAM, it is highly recommended to:

- 1) Adhere to the contract, which needs to be as transparent as possible;
- 2) Organise regular meetings with stakeholders to provide activity and progress updates.

Challenges During the Pre-Opening Phase

A smooth hotel opening is heavily dependent on management teamwork, organisation and preparation. The main measurement of a successful hotel opening is that the scheduled opening date is strictly adhered to. There are countless issues that arise during the pre-opening phase that may cause delays. It poses a major challenge for both the hotel owner and operator to work together effectively to minimise this risk.

So, what are the common challenges that arise during the pre-opening phase that could delay an opening? A Root Cause Analysis (RCA) is a well-known problem-solving tool, widely used to identify the root causes or faults in any problem. This technique is applied in this white paper to trace the underlying processes. In this case, our main concern is the delay in the opening date (Mindtools, 2012). According to the RCA technique, there are three types of cause that are applicable - physical, human and organisational. These causes usually occur as a result of conflict between the hotel owner and the hotel operator from the outset. The issue will be exacerbated if no corrective action is taken.

Physical Causes

Physical Causes highlight the operation or performance failure of tangible items. During the pre-opening stage, the poor management of SOE, malfunctioning operating equipment, excessive focus on small equipment flaws and errors, and insufficient, inadequate documents submitted for licensing approval are the key issues that lead to a hotel opening being delayed.

- **Poor management of SOE:** A crucial task during the pre-opening phase is to specify and quantify the requirement for SOE including items for guest rooms, housekeeping, F&B, front-of-house, banqueting, kitchens, hotel administration, etc. If a SOE consultant is not hired, it falls under the responsibility of the hotel operator, in coordination with the GM, to come up with a checklist, get quotations from suppliers and convince the hotel owner to approve it. Poor management of SOE inventory will put a halt to the procurement process. The absence of necessary items will hinder the hotel's ability to operate, which could ultimately lead to its opening being delayed.
- **The absence of necessary licences:** Failure to obtain required legal documentation will delay a hotel's opening. Examples of essential documents include the general trade licences to operate in the country, standard contracts and commercial permits, etc. If compulsory licences are not obtained the property will not be legally entitled to operate.
- **Excessive focus on small flaws:** In which case the big picture is disregarded. In some cases the hotel operator tends to focus on minor flaws and is willing to postpone the project deadline to correct these non-urgent problems.

“Failure to obtain required legal documentation will delay a hotel's opening”

- **Malfunctioning Equipment:** The main issue associated with operating equipment is the time required to test its functionality. The commissioning and fine-tuning process can impact the hotel's core operations. In a classical hotel pre-opening scenario, hardware needs to be commissioned during and after the construction phase. Broken or faulty equipment will adversely impact a range of pre-opening activities and ultimately delay the hotel opening process.

Human Causes

Poor staff planning will obstruct pre-opening activities. Issues include:

- **An Inexperienced Opening Team:** The risks associated with poorly trained staff will have a negative impact on the hotel brand and the assigned budget. An inexperienced opening team lacking the appropriate knowledge and skills will delay the opening. If time is then taken to properly train staff, the hotel opening date will be pushed back.
- **Failure to Hire General Manager (GM) at the Ideal Time:** Hiring a GM at an early stage could lead to budget blowouts while hiring a GM at a later stage could cause management issues, which will lead to further delays.
- **Poor Staff Recruitment Strategy:** This occurs when management underestimates the size and/or experience/qualifications of the workforce required to properly operate the hotel.

It is the hotel operator's duty to take into consideration these parameters and plan their recruitment strategies and training programmes appropriately in advance.

Organisational Causes

Organisational issues relate to the hotel's corporate culture, policy and processes. Weak organisational structure can adversely impact pre-opening activities (Noordzij, 2014).

- **Non-Alignment on Opening Date:** There are hundreds of issues that can force a hotel opening date to be delayed. One of the common causes is setting an unrealistic opening date, mainly due to differences in opinion and expectations between the owner and the operator. The owner's preference is to open the hotel as soon as possible to start generating revenue. The operator, on the other hand, will want to ensure every minor detail is addressed prior to the opening to avoid bigger problems down the track. Failure to open the hotel on time will lead to a deterioration in the owner-operator relationship.
Any delay to the scheduled opening date will negatively impact revenues and potentially the hotel brand itself. For example, expenses such as pre-opening staff salaries, accommodation costs and hotel utilities still need to be budgeted for even if there's no cashflow. Budget blowouts will impact commercial confidence. The hotel operator could damage the brand name by being deemed inefficient and disorganised given they have not met targets set by the hotel owner.
- **Inadequate Staff Accommodation:** In the United Arab Emirates specifically, the majority of hospitality staff is entitled to accommodation. Inability to locate appropriate accommodation in time will affect staff recruitment and retention and potentially delay the hotel's opening.

“Any delay to the scheduled opening date will negatively impact revenues and potentially the hotel brand itself”

- **Poor Organisational Structure:** An effective organisational structure should provide staff with clear guidelines on how to proceed with their tasks, resolve any disagreements, and outline the necessary procedures that need to be implemented. In respect to potential hotel pre-opening issues, failure to effectively integrate staff into the hotel's corporate culture at an early stage will lead to more significant issues once the hotel is fully operational (Lloyd, 2013).

Consequences of Delaying a Hotel Opening

It is inevitable, even for experienced operators, to face challenges prior to a hotel's opening. A notable example is the case of The Denver Hotel Expansion project in Dubai, which failed to meet the delivery targets, exceeded the budget by 13%, and filed an overdue time by 50% (Kosman, 2012). The main challenges in this case could be divided into three categories: a design change that resulted in an additional 8.5% time impact and 11.4% cost impact; incompetence in planning that resulted in an additional 1.02% cost impact; and a financial constraint that ultimately led to the delayed purchase of Operating Supplies (OS) and SOE (Kosman, 2012).

According to Noordzij, a number of consequences arise when a poor pre-opening management strategy results in a hotel's scheduled opening being delayed (Noordzij, 2014):

- **Inflated Pre-Opening Costs:** Extra expenses can be incurred in different forms depending on the circumstances, such as design, human resources, marketing, FF&E and SOE.
- **Negative Impact on Key Financial Metrics:** If the hotel business' operation is delayed, key performance metrics such as revenue streams, cashflow, GOP and ROI are negatively affected. Ultimately, income received by the owner and operator is impacted.
- **Negative Impact on Hotel Brand:** Brand names provide a strategic, competitive advantage, by providing the ability to generate revenues at higher margins. Delays will have a negative impact on the value of the assets associated with the brand.
- **Missed Opportunities:** Failure to capitalise on strong pre-opening demand will lead to a loss in revenues. Case in point: The world's first five-star underwater hotel, Poseidon Underwater Resort in Fiji, was scheduled to open in 2008 but was delayed for six years, despite 150,000 registered guests queuing to stay at a price of £9,000 per week (*Daily Mail*, 2012).

Flowchart Summary of the Cause & Consequence Analysis at the Pre-Opening Phase of a New Hotel

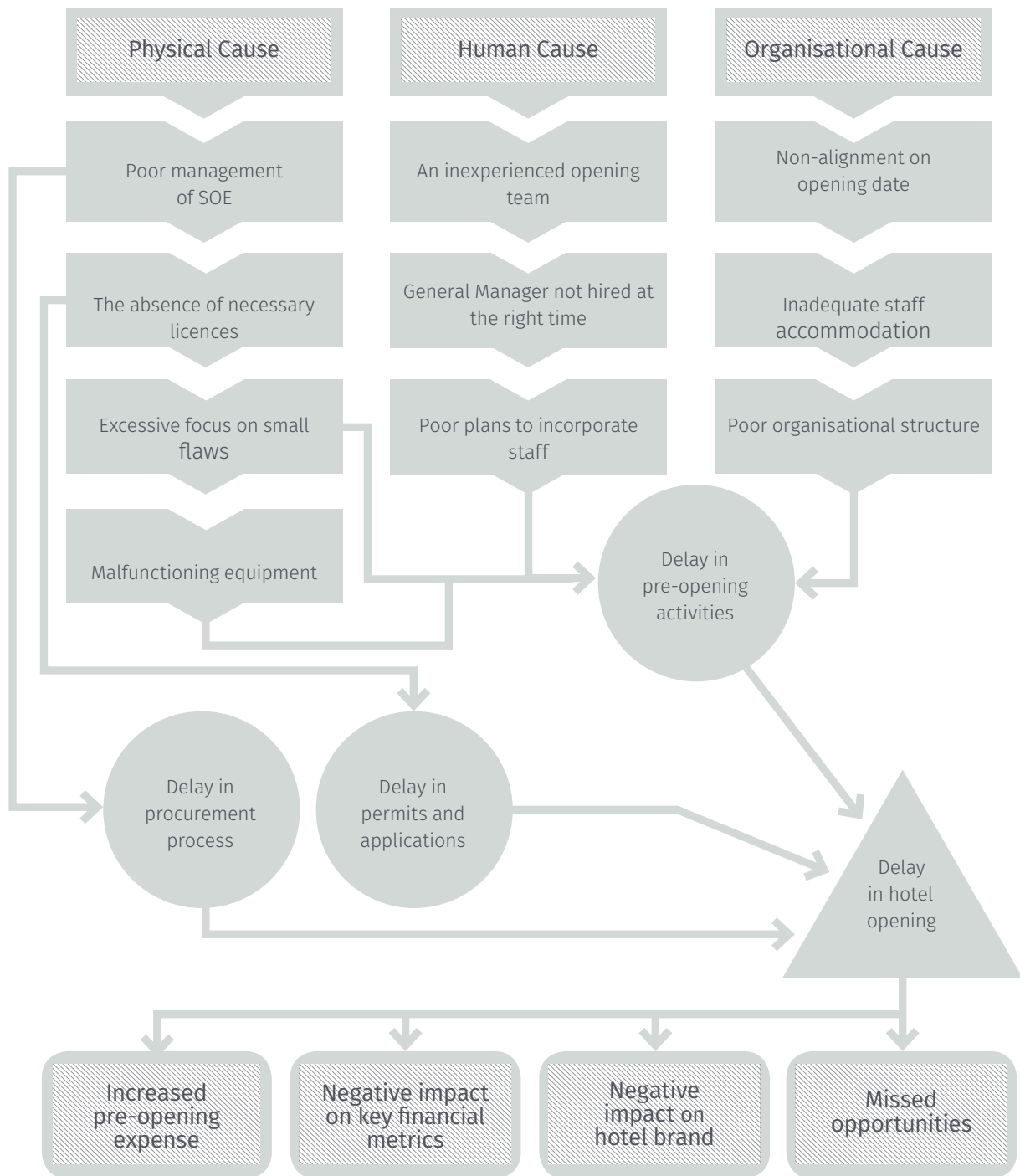
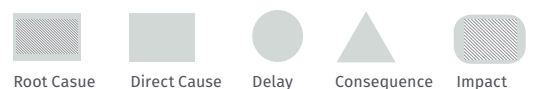


Table 1: Cause & Consequence analysis at the pre-opening phase of a new hotel. Adapted from "Root Cause Analysis & Causal Chain For New Hotel Opening Delays", by G. Noordzij, 2014, *Project Management of Hotel Opening Processes*.



Pre-Opening Strategies

Each hotel operator and developer has their own approach and set of priorities during the pre-opening phase, but they all work towards a common goal - to ensure their hotel opens on schedule. We suggest the following 10 building blocks designed to address and combat hotel pre-opening challenges mentioned in the section Challenges During the Pre-Opening Phase, **(please see page 8-10)**.

We have consulted the HSMs to gain a deeper understanding of each challenge and devised strategies to tackle them. Here we compile our findings, illustrating them in the form of pie charts.

Solutions to Physical Causes

Building Block 1: Hire an SOE Consultant

As previously noted, poor management of SOE will ultimately lead to delays in the procurement process, which will likely negatively impact the pre-opening schedule. We consulted the HSMs on the challenges they face in terms of purchasing SOE during the pre-opening stage. Table 2 below summarises our

Challenges Purchasing Small Operating Equipment

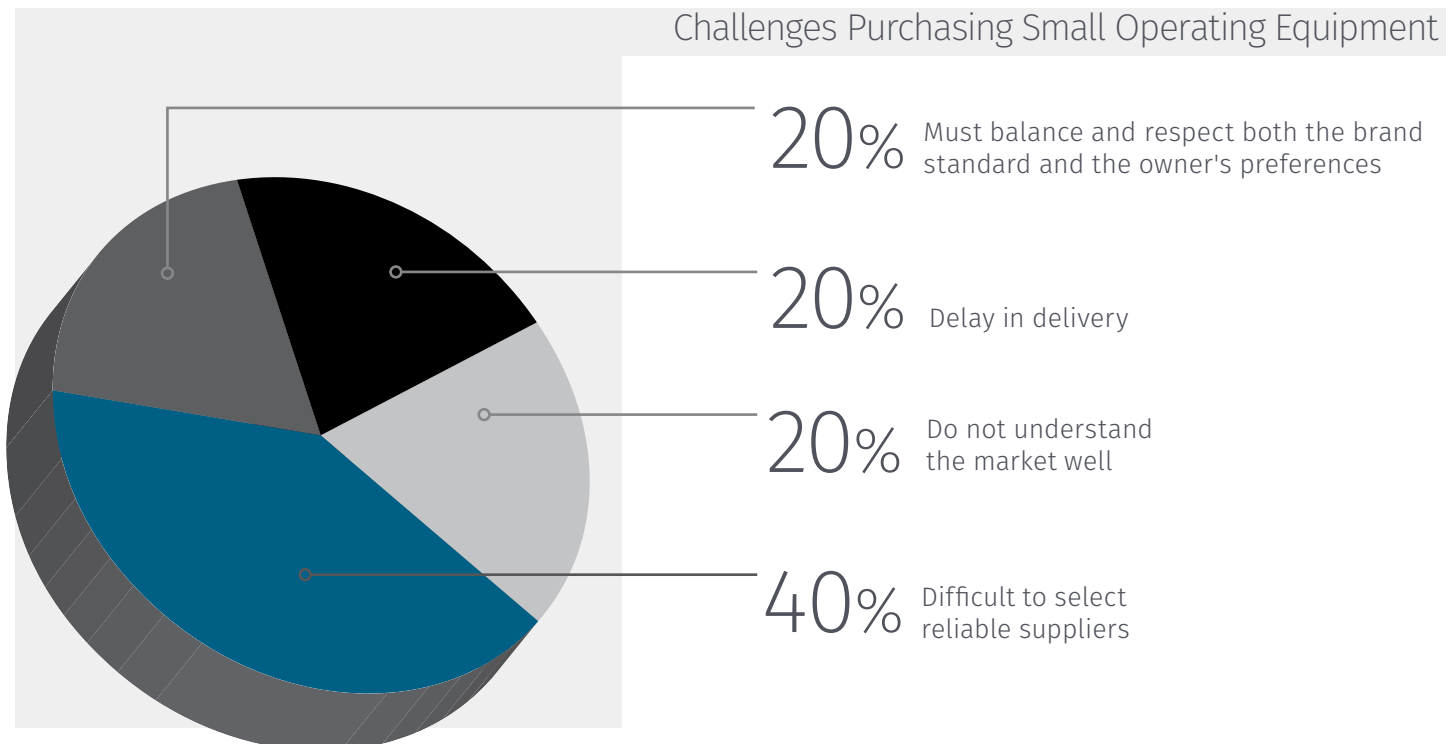
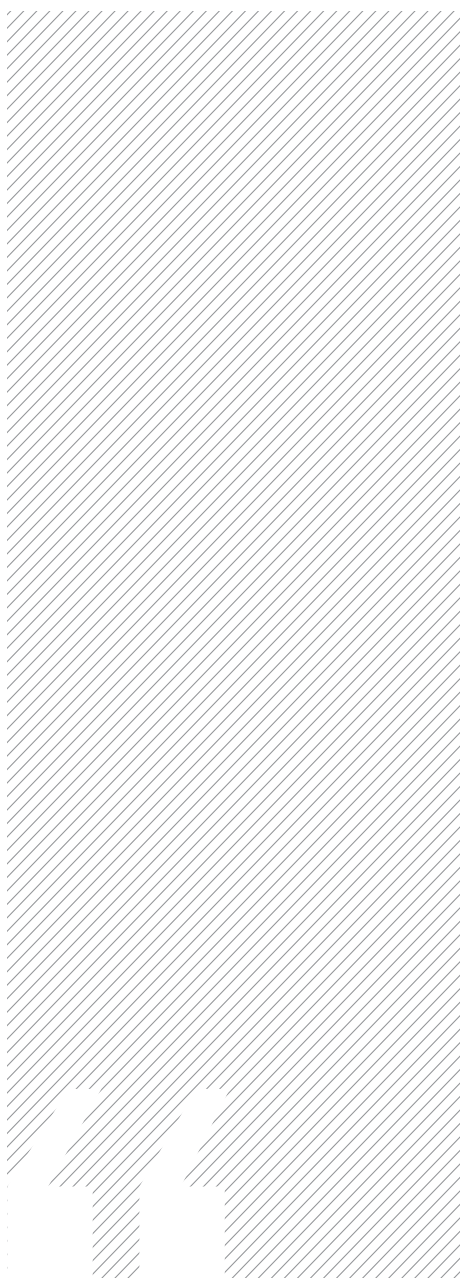


Table 2: Challenges met during the purchase of SOE



“HSMs [agree] that the biggest challenge relates to identifying reliable suppliers of products and services”

There was consensus among the majority of HSMs that the biggest challenge relates to identifying reliable suppliers of products and services. Specifically in the Middle East, there are plenty of product suppliers, but without the local knowledge, expertise and connections, it is certainly a challenge to find reliable partners. Reliability here is defined as the quality of the products supplied and ability to meet scheduled delivery times.

According to Kuuskler, SOE can be divided into 33 packages (*see appendix 1, page 23 for the detailed suggested checklist*) an upscale luxury establishment requires, spanning approximately 6000 to 7000 items. For mid-scale properties, she estimates 4000 to 5000 items.

Kuuskler has mapped the stages of a hotel’s pre-opening procurement process and the challenges that potentially lead to delays. These issues typically arise at stages three to six.

Stage 1: Assist the hotel operator in establishing requirements in accordance to the brand standards, hotel demand and local requirements. It is usually the responsibility of the owner’s assigned procurement team to specify the necessary quantities and specifications for all items.

Stage 2: Ensure the procurement team is in charge of negotiating prices for the required items.

Stage 3: Hold discussions with the hotel operator on a regular basis to reach a compromise on all items. The main issue here is that the decision-making process can be lengthy and agreements on every small detail must be made in order to proceed to the next stage. Any disagreements that arise with the hotel operator will put a halt to proceedings, eventually impacting the procurement process.

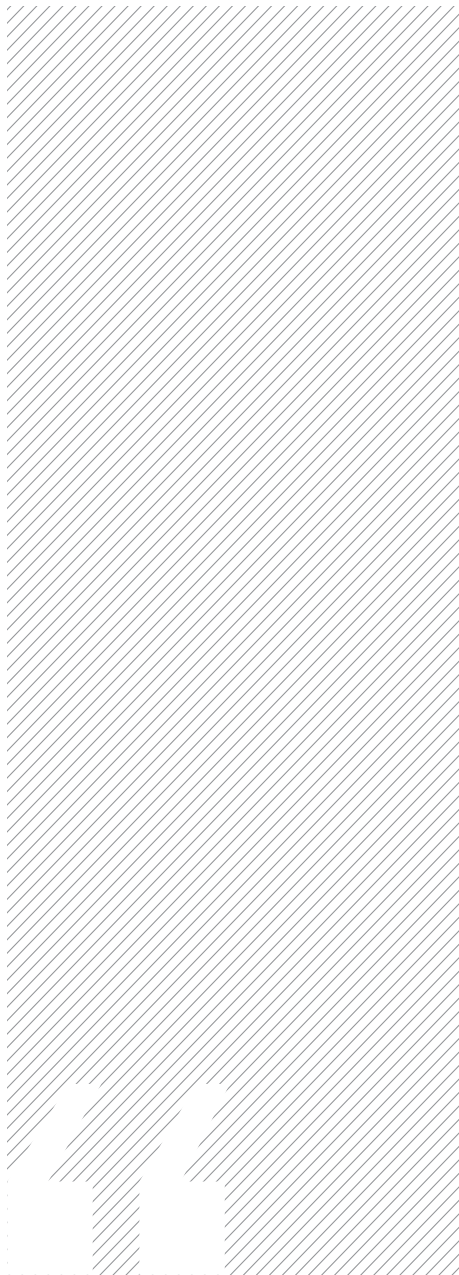
Stage 4: Accommodate the budget, bearing in mind that the owner’s main objective is to minimise expenses. Stage 4 will be another lengthy process requiring detailed justification, technical and commercial recommendations on each product to convince the owner.

Stage 5: Focuses on the process of monitoring the manufacture of equipment. The consultant needs to coordinate with suppliers to schedule a precise time of delivery so that the hotel will be ready to occupy containers. Early delivery means a warehouse will need to be rented to store items and this causes extra handling costs. Late delivery will add stress and pressure as missing essential items will hinder the hotel’s opening date. The procurement process can be put on hold if the delivery schedule is not managed prudently. It is recommended that 70% of SOE should arrive one month after the hotel’s handover phase to the operator.

Stage 6: The final stage is the arrangement of items. This stage requires staff co-operation. An experienced consultant must acknowledge that dissembling and arranging newly arrived items is not the staff’s priority. Lack of motivation and disorganised procedures will add stress and possibly cause a pause in the process.

Kuuskler suggests that an SOE consultant be hired one year prior to the hotel opening to prepare and review preliminary SOE listings and budgets hand-in-hand with the hotel operator and owner without time restrictions. The earlier the SOE consultant comes on board, the less risk there is to delays in the project timeline.

It is recommended the hotel owner engages a dedicated, experienced company to manage the procurement of SOE during the pre-opening phase.



“A capable consultant will arrange delivery schedules ... and resolve any vendor disputes”

A knowledgeable consulting firm or individual with local experience will ensure cost-effective and efficient management of all items, while also meeting the owner’s expectations and respecting the operator’s brand standards.

When asked about the required attributes of an SOE consultant, Kuuskler emphasised two main qualities. Firstly, a professional consultant must be willing to learn. They will make the effort to engage with the brand concept and acquire strong product knowledge. Secondly, they must be able to resolve conflicting interests among the various parties: the owner, operator and suppliers. A wise consultant will always listen to each party’s opinion and win them over during discussions with valid and persuasive arguments. He or she must have the ability to offer a bespoke service to suit the specific needs of the owner while upholding the hotel operator’s brand standards. During a heated argument between the hotel owner and operator, for example, disagreeing on the quantity and relative expense of a particular product, it is the SOE consultant’s job to specify the requirement and convince the hotel owner to gain their approval.

Kuuskler shared her experience in selecting the appropriate suppliers based on specifications and quotations. There are two mandatory factors she emphasised: value for money and service reliability. In order to ensure these two criteria are met, it is imperative to check the company reference, profile, position in the marketplace, the accuracy of the documents and quotations submitted, and small details such as the consultant’s presentation during the meeting. A credible supplier will more likely avoid problems associated with delivery delays or missing purchase orders. It is also the consultant’s job responsibility to undertake tracking and expediting processes to ensure on-time delivery. A capable consultant will arrange delivery schedules according to the hotel’s handover phase and resolve any vendor disputes. Problems that may arise from stage six and seven are then easily avoided **(see page 8 “Poor management of SOE”)**.

Building Block 2: Licensing Requirements

According to Puri, the main challenge faced when securing licenses to operate a new hotel in Dubai is the requirements that vary from one zone to another. All hotel establishments must register and submit the required documents to Dubai’s Department of Tourism and Commerce Marketing (DTCM) **(see appendix 2, page 24 for DTCM’s detailed checklist of legal documents to open a new hotel)**. In Dubai Media City zone specifically, a Trade Licence must be registered and issued by the Dubai Technology and Media Zone Authority (DTMFZA), to allow specific approvals in DTMFZA’s business free zone in compliance with the Dubai Technology and Media Free Zone Licensing Regulations (DTMFZA, 2015) **(see appendix 3, page 25 – 26 for DTMFZA’s detailed checklist of legal documents for FZ-LLC- For opening a new hotel)**. Failure to obtain compulsory licences on time will delay the hotel's opening.

The two most well-known hotel business models are lease structure and HMC. According to Puri, under the lease agreement it is the hotel operator’s responsibility to obtain all licences whereas under HMC, the owner will be accountable for licences, including all public spaces, F&B outlets, etc.

In Dubai specifically, the DTCM and DTMFZA are very cooperative in approving a newly registered entity. The approval takes 30 to 45 days. However, as mentioned, the main challenge is to understand the different requirements

according to the zoning authority. A professional legal officer is accountable for advising the hotel owner of the required documents, setting up contracts and agreements and assembling all essential documentations to submit to the zone authority. The legal officer's knowledge, experience and engagement are vital during the pre-opening phase to ensure complete compliance to the local authority, hence avoiding any issues that may delay the opening date. For example, inspections by the authority will be conducted at the hotel property prior to opening. Any missing documents will delay the opening process. When asked about the main challenge associated with the licences, the majority of the interviewed HSMs emphasised the need to employ the right person to deal with the local authority.

Building Block 3: Attention to Detail

A common goal must be to reduce the margin for error during the pre-opening phase. In order to achieve this, operators must train staff so they are able to identify and rectify minor issues before they have a greater impact. Disregarding small details may lead to chaos. On the contrary, the pursuit of perfection could delay an opening and ultimately lead to missed opportunities to generate revenue. It begs the question: to what extent should we pay "attention to detail"?

It is essential for every department to keep its own checklist to ensure important issues are taken into account. Staff members are required to be trained to react to unexpected circumstances. Attention to detail will mitigate the likelihood of mistakes arising during the operational phase.

Building Block 4: Test Your Equipment and Leave Ample Time for Problem-Solving

According to Faz, the testing or commissioning phase for hotel infrastructure should be a regimented process that continues until all errors are documented and rectified. In most agreements, it is the contractor's responsibility to perform the quality control process to ensure all equipment is in compliance with the brand standards and is functioning properly. It is recommended the owner hires a third-party consultant to prepare a snagging list to test all equipment in order to avoid any conflict of interest between the hotel operator, owner and third-party experts.

It is imperative the testing process takes place during the property's construction and handover phases. Furthermore, all parties must be informed of the ongoing process and understand the critical issues involved.

Solutions to Human Causes

Building Block 5: Training

The performance of a hotel partly depends on staff competence and therefore an effective staff training programme will improve overall productivity. Competent employees are armed with skills gained through years of training and professional experience. Training is key to an employee's professional development. A well-trained employee will benefit the hotel operator by helping them remain competitive and save expenses, especially at the initial stage of the hotel's operation.

"Attention to detail will mitigate the likelihood of mistakes arising during the operational phase"

Table 3 below summarises the HSM's responses in terms of challenges faced in respect to staff training.

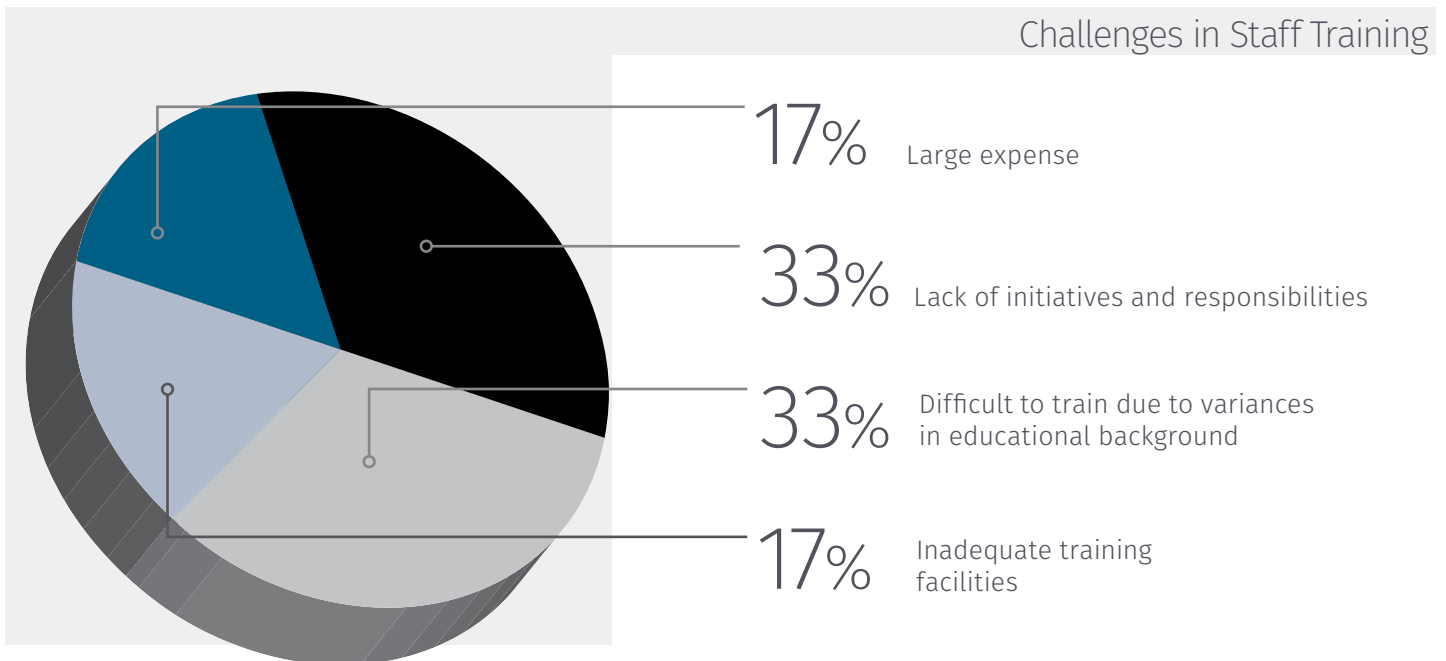


Table 3: Challenges in Staff Training

There was consensus among the majority of HSMs that the standards of higher education received by staff members and an absence of compelling training initiatives were two stumbling blocks facing hotel operators. It was also agreed that standardised training programmes often do not effectively meet the requirements of all staff members.

The following training initiatives begin once the core team has been recruited: orientation, codes of conduct, company policy and departmental training. GMs are highly involved in staff training, especially during the induction phase to ensure corporate objectives and philosophies are learned and respected. Since this knowledge is standardised, most of the HSMs believed an in-house, on-the-job training programme is the best option for pre-opening staff. Calbet believed contracting a consultant to train staff in key departments in specific skills as required is an ideal route, particularly for staff reluctant to embrace standardised training programmes or those requiring training in specific skillsets.

Building Block 6: Hire the Best GM at the Right Time

Role

During the pre-opening stage, the hotel GM is required to collaborate with the hotel operator to establish and ensure that brand standards are met and adhered to. In general, a hotel GM is constantly in contact with the hotel owner's representative – the Hotel Asset Manager (HAM). The GM and HAM are described as the main points of contact between the hotel owner and operator, project managers, business leaders, communication bridges with different stakeholders, and peacekeepers. According to Grub, GMs should aim to achieve 90% of set targets before the grand opening.

Selection Process

So what is the exact process in selecting the GM? The operator will select three potential candidates for the hotel owner and HAM to review in order to approve and appoint one of them as the GM. When asked for the most important attributes to look for in a GM, Faz said the ideal person needs to be “hands-on, trustworthy, be the mediator that strengthens the relationship between the owner and operator, and be able to see beyond the daily operation”.

According to Balcik, what he looks for in a GM is someone who can relate himself or herself to the target market of the hotel. He or she must share a mutual understanding with guests, and be capable of anticipating their needs. Calbet believes a great GM is a leader who is willing to grow with their staff. Being a people-person is one essential trait agreed by all of the GMs interviewed.

Work Scope and Challenges

The work scope of a GM varies from one hotel to another, depending on the property size, brand standards and other parameters. A general job specification includes designing the Standard Operating Procedures (SOP), assisting the procurement process and negotiating with third-party vendors, hiring and training Heads of Departments (HOD), launching the soft opening phase, etc.

The job role of a Hotel Asset Manager (HAM) is to ensure the hotel owner’s interests are respected. Meanwhile, the GM is regarded as an employed professional who represents the operator. The most challenging task demanded of the GM and HAM during the pre-opening phase is the ability to manage expectations and conflicting interests.

Table 4 below outlines the main challenges GMs face during the hotel pre-opening phase.

Main Challenges Faced by General Managers During the Pre-Opening Phase

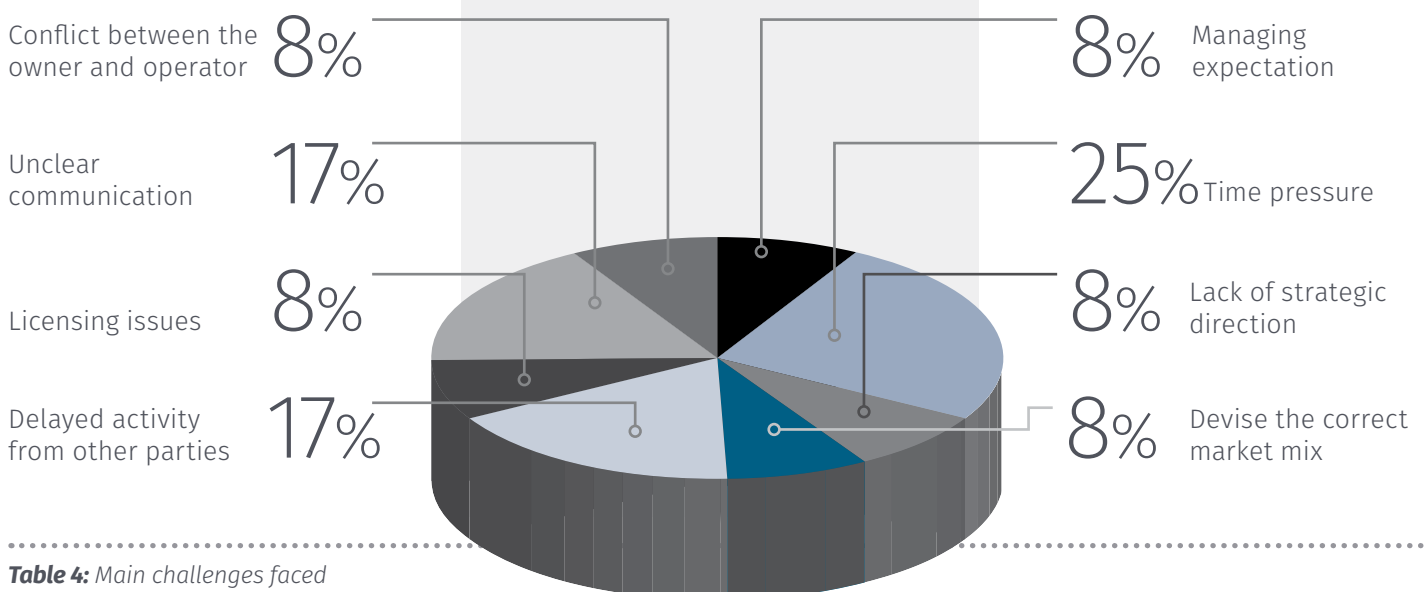


Table 4: Main challenges faced during the hotel pre-opening phase

As agreed by the majority of those surveyed, the main challenge during the pre-opening stage relates to delays in pre-opening activities. As shown in table 3, this accounted for 42% of all cited obstacles. 17% of respondents noted that delays in other pre-opening activities will ultimately put pressure on project timelines. For this reason, 25% of respondents cited time pressure to complete all deadlines as the most challenging task. The role of the appointed Hotel Asset Manager (HAM) here is to untangle any misunderstanding resulting from the poor communication and the owner’s lack of critical hotel operation knowledge, thereby diminishing potential conflict, miscommunication and time pressures.

Timeframe to Hire

It is highly imperative to employ a HAM to devise the correct timeframe for bringing the new GM on board. Factors the HAM considers include staff training, recruitment and the pre-opening responsibilities assigned to the GM. The search duration can take up two months and according to our interviews, the employment contract should be established six to 18 months prior to the hotel's opening depending on the star rating and size of the hotel.

Building Block 7: Plan the Incorporation of Hotel Staff

Table 5 below summarises the frequent obstacles facing GMs in recruiting the best staff at the most appropriate time.

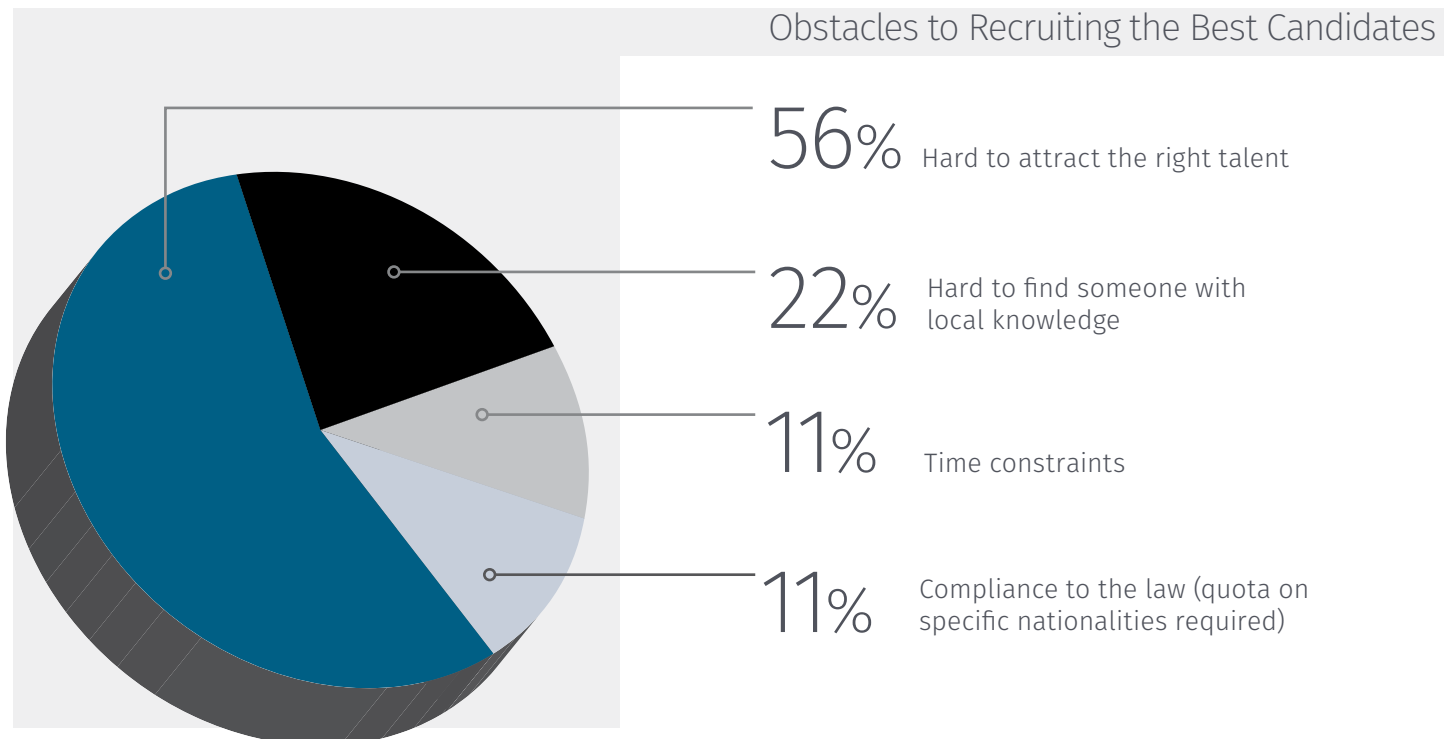


Table 5: Obstacles in staff recruitment faced by our consulted GMs

56%

The inability to attract the right talent was cited as the biggest challenge facing GMs in terms of staff recruitment

60%

Total percentage of respondents who claimed the biggest roadblock to recruiting the best talent is the lack of attractive salary packages

The inability to attract the right talent accounted for 56% of all cited answers, in which 60% of the responses in this category explained the main cause is the lack of attractive salary packages. Most of the GMs find it difficult to meet the expectations of high salary packages and appealing fringe benefits. The remaining 40% said their biggest challenge was locating recruits with skills and a passion for the job. The employment sector in the Middle East and Dubai specifically is known for its complexity. The economy struggles to attract white-collar professionals and there is a dearth of suitable, qualified specialists from the domestic market.

Miccolis suggests recruiters take advantage of the current online recruitment trend and advertise available positions on social media. This helps reach a potentially larger pool of talent. Personal networks or referrals are also effective recruitment methods. Grub, having worked for large international hotel brands, believes in staff promotion from another property to the new hotel. Staff who have already worked for the same brand require less training and are familiar with the corporate culture, he says.

A precise work schedule must be developed prior to any recruitment activity. In addition, the search for staff accommodation must proceed simultaneously with the personnel hiring strategy. The majority of our interviewed HSMs agreed that a Chief Engineer should be hired at the same time as the GM, followed by heads of the Human Resources, Marketing and Finance departments.

Heads of Department

Based on our discussions with the HSMs, Heads of Department recruitment falls under the responsibility of the GM and this process should commence four to nine months prior to the hotel's opening. According to Grub, for a branded upscale hotel, directors in key departments such as Finance and Marketing & Sales must be recruited no less than 10 months prior to the opening date. He suggests transferring staff from another property as an option for key positions. The main reason is ease of alignment with the brand philosophy.

When asked to outline the criteria against which top executives should be judged, Hatter described someone with high levels of motivation, reputation in the industry, a personality that blends in with the hotel or brand culture and a strong commitment to the property.

Mid-Management and Entry Level Positions

Calbet agreed the recruitment process for managerial positions remains the responsibility of the GM. Managers are often recruited three to six months prior to the hotel opening, depending on the operator, financial circumstances and hotel classification.

On average, entry-level staff are recruited one to three months prior to the hotel opening. Speaking from his experience at Starwood Hotels & Resorts, Grub also took part in interviewing entry-level staff and gave feedback to the HODs. Most GMs do not take full responsibility in recruiting entry-level staff but do have the final say on recruitment.

Solutions to Organisational Causes

Building Block 8: Set a Realistic Opening Date

As discussed, failure to set a realistic opening date will place unnecessary pressure on the hotel operator and will ultimately weaken their relationship with the hotel owner. A missed deadline will be the beginning of “everything’s going wrong”. The scheduled opening date is considered the most vital element that needs to be correctly addressed during the pre-opening stage.

In order to set a realistic opening date, both the hotel owner and the hotel operator need to reach a compromise. It is suggested the two parties adopt a suitable project management tool and set a realistic timeframe for each activity. Obtaining the building completion certificate, testing and commissioning hotel equipment, appointing staff, securing appropriate staff accommodation, and getting all the necessary licences approved are the main factors to consider before deciding on the opening date. It is usually the case that the hotel owner will attempt to schedule the opening date as early as possible without understanding the pressures involved. Once again, this highlights the importance to reach a compromise between both parties. According to Calbet, the Hotel Asset Manager will help balance the interests of both the hotel owner and operator, ultimately helping to reach a realistic opening date. The final opening date must be decided and approved by the owner.

Grub suggests a hotel critical path as a hotel project management tool. The aim of a hotel critical path is to guide hoteliers to manage time for completion for each task, hence a realistic opening date can be anticipated.

Building Block 9: Staff Accommodation

Table 6 below summarised our findings when discussed with the HSM regarding the issue of staff accommodation.

Challenges in Securing Staff Accommodation

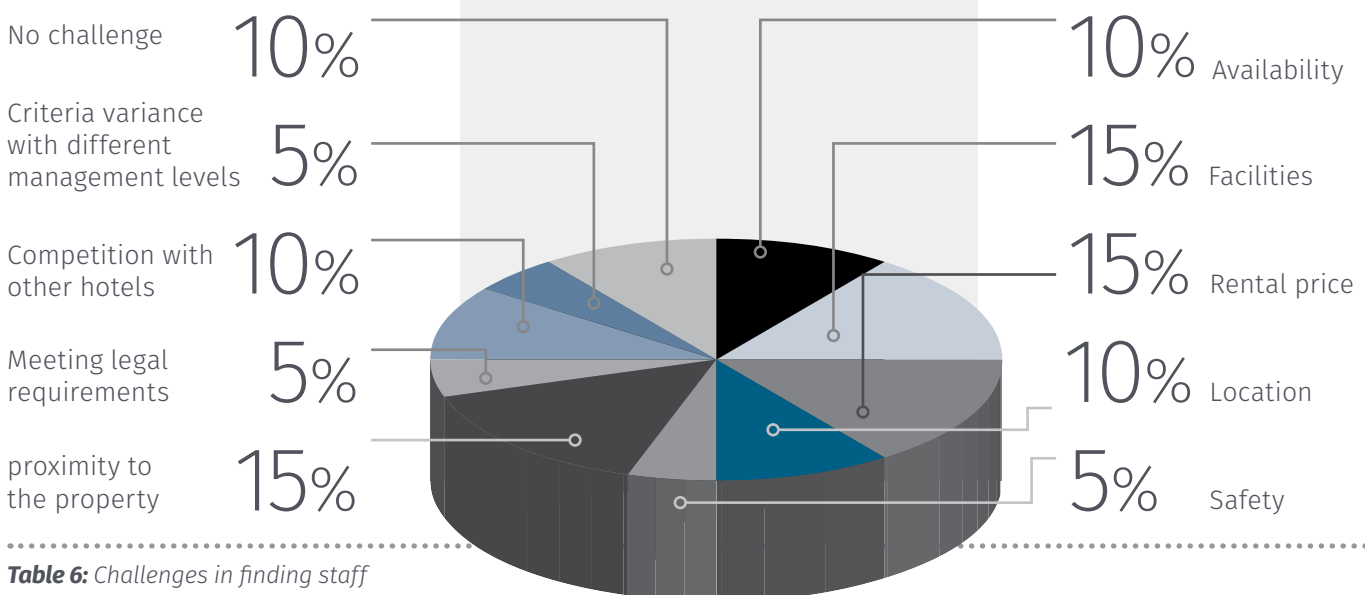
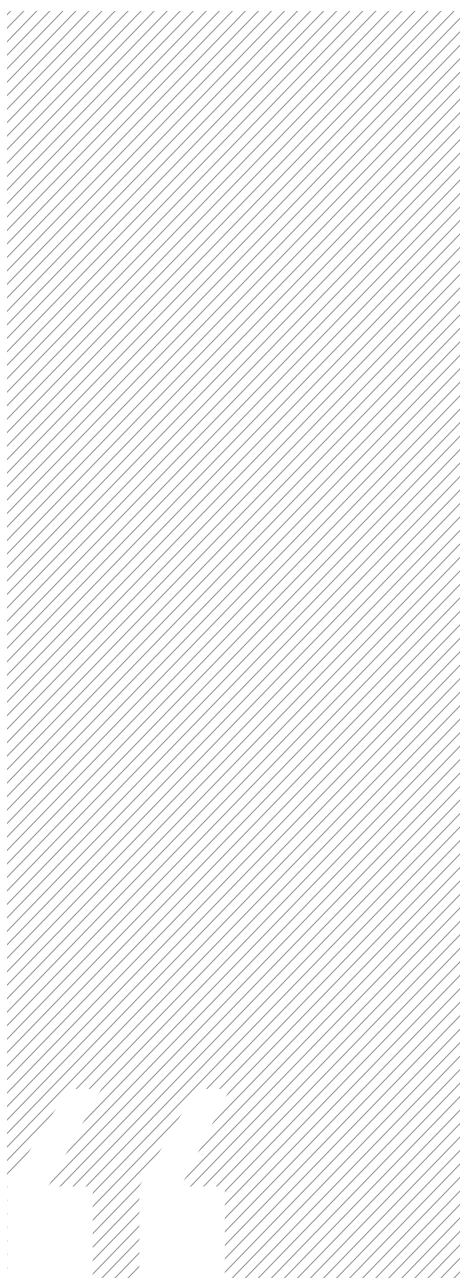


Table 6: Challenges in finding staff accommodation faced by our consulted GMs



“A soft opening serves to bring inevitable and sometimes unexpected issues to light”

The majority of our surveyed HSMs agreed that infrastructure, rental rates and proximity to the hotel property were the main priorities when selecting staff accommodation. Two out of six GMs faced no challenges in finding staff accommodation as it was not their area of responsibility. These two GMs faced a similar situation whereby their hotel properties belonged to hotel owners who were willing to pay high rents for top-quality staff accommodation, in a bid to enhance their living conditions and comfort levels.

According to Faz, who put forward the owner’s point of view, one of the biggest challenges when signing a staff accommodation contract is the lack of supply given the growth in demand generated by several concurrent hotel openings. The race to win the bid for desired staff accommodation will also drive the rental price up and both the hotel owner and operator will face soaring rental prices each year.

In order to make wise staff accommodation decisions, hoteliers must focus on the following key factors:

- 1) Close proximity to the hotel is essential. Staff accommodation that is inconveniently located a significant distance from the hotel will increase commuting times and costs. Ultimately, this will adversely impact the pre- and post-hotel opening phases;
- 2) Rental prices;
- 3) Length of contract - a long-term contract is preferable (annual contract);
- 4) Quality of accommodation – accommodation must be comfortable and provide basic facilities.

Balcik strongly believes staff accommodation plays a major role in ensuring staff satisfaction and encouraging motivation. Taking the financial constraint out of the equation, the ideal accommodation needs to meet basic requirements e.g infrastructure, necessary facilities. In addition to such fundamental needs, the accommodation must nurture a fun community environment. Hotel operators should add amenities they believe will enhance the “fun” factor for staff, or even consider building their own staff accommodation to suit their requirements.

Building Block 10: Plan the Hotel Soft Opening

A soft opening serves to bring inevitable and sometimes unexpected issues to light before the property becomes fully operational. Hotel guests lessen their expectations and leave a certain margin for error during this period. A soft opening also reduces the pressure on the operator to open the property on time.

There are several reasons why all new hotel properties should dedicate a certain time period to a soft opening. Firstly, newly discovered bottlenecks will be ironed out. Secondly, it allows more time to adequately train staff. Thirdly, the soft launch will serve to generate cashflow during the early months of operation. The operation team can confidently manage the property as hotel guests have lower expectations. Guest feedback will help the property address issues and therefore run the property more smoothly after the grand opening. According to Bolz, critical issues must be created during the soft launch to test the strategies for dealing with each of them.

Frequent Issues That Arise During a Soft Launch

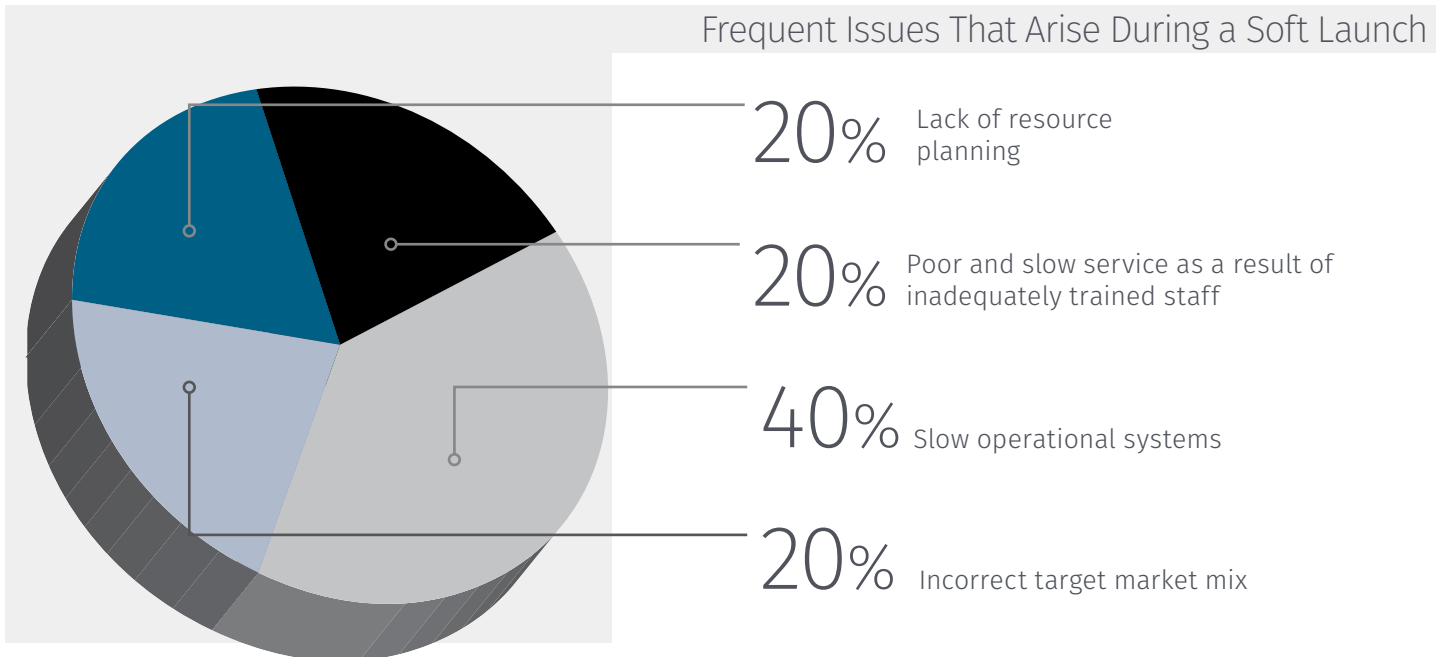


Table 7: Frequent issues faced during soft opening

Opinions differ as to how long a soft launch should run for. In the Middle East, particularly in Dubai where the tourism market is very seasonal, it is widely accepted that if the hotel is expected to open in winter, the soft launch should be shorter and take place in the summer. Miccolis suggests an average time period of two months for soft openings in developing markets in the Middle East, whereas in mature markets such as Hong Kong, Hatter suggests a timeframe of no more than three weeks. When asked what percentage of rooms should be opened during the soft launch, the majority of those surveyed recommended 50% of inventory, with limited service and product offerings.

Conclusion

As Mintzberg once said: “Companies are communities. There’s a spirit of working together. Communities are not a place where a few people allow themselves to be singled out as solely responsible for success.” Different stakeholders have different priorities, but they all work towards a mutual goal - to generate maximum profit. The challenge is to remind oneself of the big picture, hence, minimising the chance for personal conflicts and to act in the best interest of the hotel property.

New hotels worldwide face a common challenge - to open according to an agreed schedule. Yet many struggle to overcome issues during the pre-opening phase that threaten to derail their plans. Ultimately, opening delays in lead to increased pre-opening expenses, adverse impact on key financial metrics, missed sales opportunities and potential damage to the hotel brand.

With the help of several industry professionals who willingly shared their valuable experiences, TFG Asset Management’s first white paper has summarised the most common issues that arise during a hotel’s pre-opening stage, and devised strategies to deal with these obstacles. Our approach to hotel pre-opening guarantees a smooth and timely opening, which in the long run, will help the property to remain competitive, while strengthening the relationship between the hotel owner and operator.

Appendices

	Package Category	Year of Entry
1	Beds and mattresses	3
2	Linen	5
3	Guestroom supplies	15
4	Guestroom Electrical	3
5	Mini Bar Fridges	1
6	Safes	1
7	Miscellaneous	18
8	F&B Linen	5
9	Hollowware & Chafers	1
10	Flatware	4
11	Chinaware	4
12	Glassware	7
13	Buffet ware	11
14	Coffee Machine	1
15	Dining Room Accessories	9
16	Kitchen/Bar Smalls/Kitchens	6
17	Banqueting Equipment	4
18	Induction Table	3
19	Trucks & Trolleys & Crowd Control	7
20	Miscellaneous Housekeeping	9
21	Cleaning/Machinery & Supplies	2
22	Spa & Pool (gym equipment not included)	N/A
23	Recreational Equipment	N/A
24	Offices/Office Furniture	4
25	Shelving	2
26	Security & Safety Equipment	4
27	Engineering	2
28	Uniforms	3
29	Cars	N/A
30	Consumables	N/A
31	Freight & Duties	N/A
32	Warehousing	1
33	Apartment Rental Pool Servicing	4

Appendix 2

Legal Documents Required from the Department of Tourism and Commerce Marketing (DTCM) to Obtain a Hotel Licence

2.1 Hotel Initial Approval Requirements

- 1 : Application Form
- 2 : Passport copy of applicant(s)
- 3 : Family Record Extract "khulasat Al Qid" and Identity Card (UAE Nationals Only)
- 4 : Establishment's classification card
- 5 : A copy of "Building Completion Certificate"
- 6 : A copy of the plot map
- 7 : Passport copy of the manager
- 8 : **(Authenticated)** Certificate and experience of the Manager (any of the following)
 - a) Experience of three years in the hospitality industry if they have a university degree in hospitality
 - b) Experience of four years in the hospitality industry if they have a university degree
 - c) Experience of five years in hospitality industry if they have a secondary school qualification
- 9 : Recent Certificate of Good Conduct for the establishment's owner(s) and the manager in charge, issued from Dubai and addressed to DTCM
- 10 : Approval of Dubai Police General H.Q. (Department of protective systems)
- 11 : A location blueprint

2.2 Licensing Procedures

- 1 : Payment of Initial Approval Fees
- 2 : Approval of the Establishment's "Trade Name", and payment of related fees
(In case of using the trade name of an international or local company for hotels management in the licence, the applicant shall provide "No Objection Letter" to use the trade name of such company)
- 3 : A copy of tenancy contract approved by the landlord to the contract shall be valid for more than 3 months and issued in the name of the establishment or hold an approval from Ejari
- 4 : Documents attached for the initial approval and approval of the management
- 5 : Enclosing a copy of the establishment's classification letter
- 6 : The approval of the other competent federal and local authorities and fulfillment of all related requirements:
 - a) Dubai Municipality (Planning/Sanitary Drainage/Letter of Waste Management Department - Public Health Department)
 - b) Civil Defence Department

Note: In case of more than one shareholder holding the trade licence, the applicant is required to provide a partnership agreement authenticated by the Public Notary, in addition to the fulfillment of all requirements according to the legal form of the company (Joint venture/ Limited Liability Company/ Other)

2.3. Procedures for Licence Printing

- 1 : All data related to the hotel establishment shall be entered by computer, in addition to the defining of licence fees.
- 2 : Issuance of the receipt against the payment of the licence fees
- 3 : Having paid the fees, the applicant shall contact DTCM Counter for printing the licence.

*Source from Department of Tourism and Commerce Marketing (DTCM)

Appendix 3

Legal documents required for FZ-LLC (For Hotel Licence)

3.1 Documents Required Before a Certificate of Incorporation and Licence can be Issued:

- | | |
|----|---|
| 1 | Name Reservation Certificate from Dubai Technology and Media Free Zone Authority |
| 2 | Preliminary approval issued by the Department of Tourism and Commerce Marketing, Dubai |
| 3 | Application form for Registration |
| 4 | <p>Details of the Shareholder (s):</p> <p>If the Shareholder is a Natural Person:</p> <ul style="list-style-type: none"> a) A document setting out the personal details of the individual shareholder(s). b) Valid passport copy with visa page of the individual shareholder(s). c) Original Reference letter provided by the Bank for individual shareholder(s). d) RIC Form of the individual shareholder(s) <p>If the Shareholder is a Corporate Person:</p> <ul style="list-style-type: none"> a) Certificate of Incorporation - (Notarised) b) Memorandum and Articles of Association - (Notarised) c) Certificate of Good Standing (if the Shareholder is over 2 years old) - Original d) IC Form of the Corporate Shareholder(s). |
| 5 | <p>Resolution calling for an establishment of a FZ-LLC in the Dubai Technology and Media Free Zone for guaranteeing full financial commitment - Notarised and Legalised:</p> <ul style="list-style-type: none"> a) Appointment of the Negotiator/ Legal Representative (optional). b) Power of Attorney for the Manager (if not part of the Resolution) - Notarised and Legalised. |
| 6 | <ul style="list-style-type: none"> a) Valid Passport copy with visa page of the Manager. b) NOC from the current Residency visa Sponsor of the Manager in the UAE (if applicable). c) RIC Form of the Manager (Notarised). |
| 7 | <ul style="list-style-type: none"> a) Valid Passport copy of the Director(s). b) RIC Form of the Director(s) (Notarised). |
| 8 | Original Title Deed issued by the Dubai Land Department for verification. |
| 9 | <ul style="list-style-type: none"> a) Copy of the Land Lease agreement issued by TECOM of the Landlord (if the land is leased) endorsed by Dubai Land Department. Or: b) Copy of the Land Lease agreement between Landlord and the Building Owner (if applicable) endorsed by Dubai Land Department. c) Copy of the Building Lease agreement between Landlord and Hotel Operators (if applicable) endorsed by Dubai Land Department. |
| 10 | Copy of the Franchise/Operating Agreement |

*Source from Dubai Technology and Media Free Zone Authority (DTMFZA)

Appendix 3

Legal Documents Required for FZ-LLC (For Hotel Licence)

3.2 Documents Required for Hotel Licence to be Issued

- | | |
|---|--|
| 1 | Proof of Share Capital in line with the Dubai Department of Tourism and Commerce Marketing Classification along with the Resolution of the Shareholder(s) for increasing the share capital |
| 2 | Copy of Building Completion Certificate issued by the Zoning Division of the Authority |
| 3 | Copy of valid Tourism Licence issued by the Dubai Department of Tourism and Commerce Marketing |
| 4 | Copy of valid Classification Certificate issued by the Dubai Department of Tourism and Commerce Marketing |
| 5 | Clearance Certificate from the Dubai Civil Defence/annual renewal certificate for 24/7 security endorsed by Dubai Civil Defence/ Authorised Vendor |
| 6 | Copy of the payment receipt made to the Dubai Municipality towards Waste Disposal |
| 7 | Valid Insurance Certificates from a reputed vendor covering Fire and Peril and Third Party Liability |
| 8 | Copy of the account registration made with Dubai Municipality |
| 9 | Hotel licence fees will advise upon receive Hotel Classification |

*Source from Dubai Technology and Media Free Zone Authority (DTMFZA)

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