

A Project Lifecycle for New Hotels

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Abstract

This paper advocates that hotel owners adopt a complete and well-defined project lifecycle when developing their new hotels. Moreover, it recommends that owners should appoint an experienced and well-rounded project manager to plan all phases within this project lifecycle from day one of their projects.

To provide a context, the paper summarizes current approaches to opening new hotels and identifies their inherent problems. Then, the overall asset lifecycle for a hotel is proposed and the authors recommend that owners adopt the extended project lifecycle for their new hotel projects. The goals and deliverables for the key phases within this extended new hotel project lifecycle are identified and the main benefits of following this new approach are explained.

This new approach ensures that all interdependencies are identified and planned for, and reduces the risks of new hotel opening project failures (delays, cost overruns, etc.). It also helps optimize the return on investment for each new hotel and maximizes positive cash flows from operations.

Introduction

The current status quo for new hotel developments is one of interdependent, but non-integrated phases, whereby owner-appointed, but separate entities design, build, open, and operate each new hotel. There are inherent inefficiencies and crucial conflicts of interest in this approach that inevitably lead to conflicts and problems during and after the project. Architects and interior designers can have very different perspectives about the needs for a new hotel compared to hotel management companies. Also, construction companies are always focused on minimizing the risks and costs of hotel construction which often conflicts with the goal to minimize ongoing lifetime hotel operating costs. Finally, opening a new hotel involves totally different management systems and skill sets from subsequently operating the property, but the work is often executed by hotel operational staff with minimal project management experience.

Judging by the chronic delays in current, new hotel openings, project phases are now largely planned and executed independently (Noordzy & Whitfield, 2014). Consequently, opportunities for integration and synergistic improvements between phases in new hotel projects are missed, and one phase is often surprised by delays in other phases because stakeholders are unaware of them until a deadline is missed.

The same time-tested methods that have proven themselves so effective in managing substantial projects in other fields like information technology, banking, telecommunications, and construction should be adopted for new hotel projects. In these other fields, it has been amply demonstrated that projects must be driven by their underpinning business case, and that it is crucial to identify all phases of the project lifecycle and plan them as an integrated whole, before the project is initiated.

The phases involved in each new hotel opening project are virtually identical, which allows for these to be standardized. Even if the levels of complexity and the length of specific phases increase for larger, higher-tier new hotel projects, the phases remain fundamentally the same (Noordzij, 2014).

In the context of this paper, each new hotel opening project begins with the initial decision to look at developing a new hotel in a specific location and finishes with the new hotel commencing operations to take in paying guests. Long-term management of a portfolio of hotel assets is a very important, related topic that will not be considered in this paper. Nonetheless, it is crucial for hotel owners to manage when they buy or open new hotels, and when they renovate or sell existing hotels to maximize the ongoing returns from their hotel asset portfolio.

A New Hotel Project Lifecycle

According to one global commercial real estate company, hotels are “a specialist asset class requiring active and focused oversight. Hotels are dynamic income producing assets that if bought, developed, operated and disposed of at the appropriate time would yield superior returns” (Colliers International, 2014).

A new hotel project lifecycle is the structure underpinning delivery of new hotel projects. It is a conceptual model, defining the inter-related phases of new hotel projects, and provides a structure for governing the progression of the work (Association for Project Management, 2012). New hotel project lifecycles are predictive (Project Management Institute, 2013): the product and services to be delivered are well-understood, and there is a substantial base of industry practice. At the same time, project scope, and the budget required to deliver that scope, are generally determined very early on in the project lifecycle.

Exhibit 1 sets out our proposed lifecycles for hotel assets and new hotel projects. The phases have been reflected sequentially. In reality, some phases may overlap or run in parallel, whilst others may require iteration. This is contingent on the type, size, location, nature, and urgency of the new hotel project.

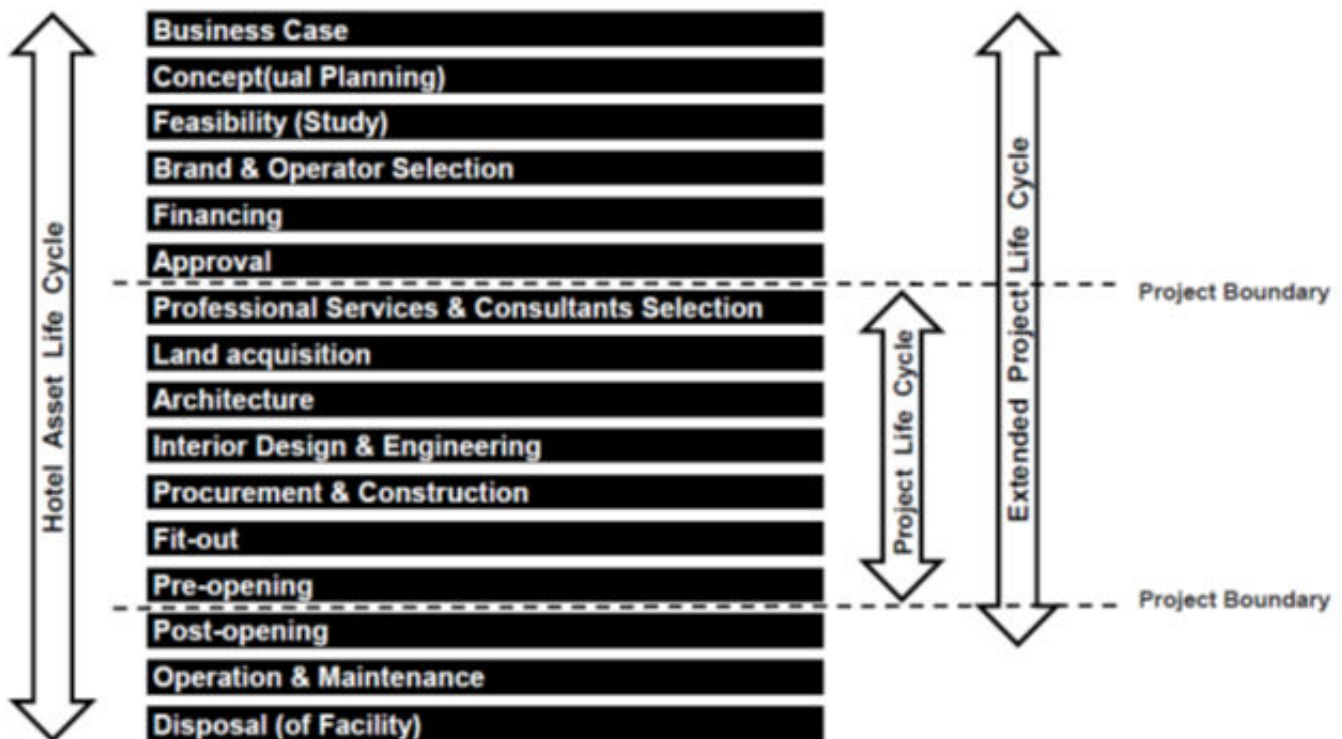


Exhibit 1: New hotel project lifecycle (Noordzij, 2014)

The entire asset lifecycle for a hotel begins with the preparation of the business case for developing it

and ends with the final disposal of the hotel asset at the end of its economic life. Traditionally, the project lifecycle for opening a new hotel commences once approval to acquire the land and build the facility has been given, and finishes when the hotel opens for paying guests, but typically excludes preparatory work up to the decision to go ahead with the project. In our view, these preparatory phases, as well as the post-opening phase immediately following the opening, should be included in an extended view of a new hotel project to ensure that an optimal outcome is achieved.

The business case for a new hotel, which studies the economic potential and determines if there is a need for the project, is crucial. It defines the nature of the hotel asset to be built and its potential profitability. It should drive the decision to adopt brand affiliation or not; to appoint a third party operator or not; and the selection of suitable professional services, consultants, and specialists, such as a financial planner, architect, interior designer, contractor, and hotel general manager.

Based on the business case and working with the relevant stakeholders, the conceptual planning and feasibility study can be carried out. The financial planner can calculate the total development and subsequent operating costs and can determine the expected internal rate of return on investment for the holding period, as well as the overall financing requirements. If the efforts of the different stakeholders are not coordinated, this preparatory phase and the feasibility study will inevitably be flawed and lead to a poor decision on whether to actually build and operate the hotel. A flawed new hotel concept and poor coordination during construction and pre-opening activities also often leads to delays in technical, operational, and commercial readiness of the hotel prior to opening, and sub-optimal subsequent operations of the hotel.

The best solution for hotel owners is to appoint a suitably experienced and qualified project manager from the very beginning of the extended new hotel project lifecycle. This project manager can then oversee the development of the business case, coordinate the selection and appointment of the above mentioned professional services and consultants, set the scope and nature of their roles within the project, and ensure that their efforts are effectively coordinated during the whole project lifecycle from definition of the business case through to handing the completed property over to the operator so it can accept paying guests and operate most profitably.

The work performed in each phase of the extended new hotel opening project lifecycle is different in nature to the work performed in the previous and following phases. As a result, the make-up and skills required of the project team will vary from phase to phase. To plan the project activities in each phase, and coordinate and integrate the interdependencies between each and various phases, a well-rounded project manager with relevant experience, who understands how the phases fit together must be appointed as the first person “on the job.”

Exhibit 2 shows the main objectives and deliverables for each phase of the extended new hotel project lifecycle.

| | The phase involves: | The main deliverables to achieve include: |
|------------------------------|--|---|
| Business Case | Studying the economic potential and determining if there is a need for the project. | A high-level document describing whether or not the project is worth the required investment, based on business need, cost/benefit analysis, and unaccommodated demand. |
| Concept(ual Planning) | Defining the distinctive attributes that make up the future hotel’s brand DNA for competitive advantage. | A clear definition of what the hotel’s brand stands for: a unique DNA of style, values, differentiators, guidelines and standards, and a brand platform and promise. |
| | Analyzing the economic and | |

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|--|---|---|
| Feasibility (Study) | financial viability of the new hotel project to confirm its feasibility, based on market assessment, profit and loss projections, risk analysis, and prevailing social and regulatory environment. | A detailed document describing what the optimal hotel product would be to maximize market penetration, performance, and internal rate of return on investment for the holding period. |
| Brand and Operator Selection | Determining if the business case is best sustained by: - Brand affiliation through a franchise agreement or house brand, <i>and</i> - Management by a third party operator through a management agreement or self-management. | An informed decision, based on a comparative study of brand's performance vs. house brand, and operator's performance vs. self-management. |
| Financing | Securing capital for the new project, based on a realistic budget that maximizes resources. | Funding for the totality of the project budget, including acquisition of land, construction and fit-out of the building, legal fees, professional services and consultant fees, pre-opening activities, contingency fund, and working capital for the first 3-9 months after the opening for debt service and operations. |
| Approval | Obtaining formal internal and external approvals to commence the new hotel project. | - Formal internal approvals based on competent economic evaluation and due consideration for adequate financing. - Formal external approvals, such as regulatory licenses and permits. - A project charter, formally authorizing the project. |
| Professional Services and Consultants Selection | Selecting and procuring competent professional services, and appointing specialists and specialty consultants. | The formation of the project team to plan and execute all phases of the project lifecycle. |
| Land Acquisition | Acquiring land for the construction of the new hotel project. | A legal document granting temporary or perpetual ownership of the land for the purpose of developing a new hotel project. |
| Architecture | Developing the overall footprint, exterior geometry, and finishes of the building, and defining the general interior layout of the building, incorporating basic zoning planning to facilitate the operational and logistical requirement. | Formally-approved concept planning and 3D renderings, through to detailed dimensioned construction documentation, including detailed drawings, materials specifications, and areas analysis. |
| Interior Design and | Developing the interior style of the building, defining the interior detailed planning, spatial geometry, | Formally approved concept planning and 3D renderings, through to detailed dimensioned construction documentation, including detailed |

| | | |
|-------------------------------------|--|--|
| Engineering | finishes, furniture, and equipment, and providing environmental control for user comfort. | drawings, material specifications, and samples for the interior design and mechanical, electrical, and plumbing systems of the building. |
| Procurement and Construction | Procuring building materials and constructing the shell and core, and installing the systems by the main, sub-, and specialty contractors. | A partially completed new hotel, ready for fit-out. |
| Fit-out and IT | Manufacturing, supplying, and installing fixtures, furniture, and equipment, and IT hardware and software. | A fully furnished, tested, and commissioned hotel, ready for hand-over to the hotel management team for cleaning, set-up, onsite training, and simulation exercises. |
| Pre-opening | Preparing the facilities for occupancy by associates and paying guests, and maximizing the business ramp-up. | A new hotel asset, technically, operationally, and commercially ready and authorized to operate. |
| Post-opening | Bridging the transition from “project” to “operations” mode. | A formally signed-off and defect-free hotel asset, with no unresolved pre-opening issues, and formal closure of the hotel development project. |
| Operations and Maintenance | Conducting the day-to-day hotel operations and maintaining the asset. | Maximizing positive cash flows from operations and increased asset value. |
| Disposal (of Facility) | Executing the exit strategy at the end of the holding period of the hotel asset. | The sale of the hotel asset and realized internal rate of return. |

Exhibit 2: Main objectives and deliverables for each phase (Noordzij, 2014)

Conclusion

From a hotel asset owner’s perspective, it is strategically important to formalize a conceptual new hotel project lifecycle as part of the overall hotel asset lifecycle. Doing so offers a number of measurable major benefits, as follows.

Achieving Investment Objectives

The ability to influence the final characteristics of the hotel asset (without significantly impacting cost), and therefore, the ability to achieve the investment objectives for the hotel, is highest at the start of the new hotel project. The ability to influence the outcome decreases as the project progresses toward completion.

Better Risk Management

Risk and uncertainty are the greatest at the beginning of a new hotel project. These factors decrease over the life of the project as decisions are reached and as deliverables are accepted. Risks can be significantly reduced and mitigated through proper planning and integration of all new hotel project phases, and proper risk management throughout the new hotel project lifecycle.

Cradle to Grave Thinking

The extended new hotel project lifecycle is part of the process through which a new hotel project is delivered from cradle to grave. The new hotel project lifecycle is complex, yet virtually identical, and can be decomposed into phases. The solutions for every phase are then integrated to deliver the final product and service.

Proper Allocation of Roles and Responsibilities

By defining the new hotel project lifecycle from an owner’s perspective, proper roles and responsibilities can be assigned accordingly to the project team and various stakeholders to complete

the various project activities in each phase with the ultimate investment objective in mind.

More Efficient Operation and Maintenance

The extended project lifecycle allows the hotel project developer to consider construction, as well as subsequent property operation and maintenance costs, early on in the project. The latter are part of the hotel asset lifecycle, and perceived savings during construction may “not be worthwhile if the result is much larger operating costs or not meeting the functional requirements for the new facility satisfactorily” (Hendrickson, 2008).

Benchmarking

The project lifecycle provides the hotel industry and project management profession with a common frame of reference for measuring new hotel project performance.

About the Authors

Gert Noordzy, MBA, CAPM, FAIQ is an international hotelier and doctoral candidate. Mr. Noordzy graduated from Hanze College Hotel Management School, Zwolle, The Netherlands, and holds an MBA from the University of Saint Joseph, Macau. He is also a Certified Associate in Project Management (CAPM)[®] from PMI, and the author of Project Management of Hotel Opening Processes. He has over 20 years of professional experience in Greater China and Southeast Asia and has been involved in opening over 30 hotels.

Richard Whitfield, PhD, is president of the East-West Institute for Advanced Studies. He has been a professor at several universities in Southeast Asia and Macau. His undergraduate and doctoral degrees are in manufacturing from the University of Melbourne, Australia. One of the MBA classes he teaches is Process and Technology Management.

Together, Mr. Noordzy and Dr. Whitfield first started researching hotel opening processes in 2008.

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