

Study on the Application of Asset Management in Hainan Hotel Management

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ABSTRACT

As one of the most important components of corporate strategic management, asset management is increasingly valued by large hotel management groups. This article discusses the essential components of dynamic lodging asset management and provides a detail background on six essential components that often used by hotel industry of Hainan and how to be used. The article also discusses the role of lodging assess managers and their working relationships with ownership and operators in Hainan. Based on the surveys of the hotel industry in Hainan, the article finds that many hotel chain operators and managers in Hainan still fail to pay attention to asset management. Even if the assent management is utilized, it is only part of its functions. If the situation cannot be changed in time, it will inevitably affect the overall performance of the hotel industry in Hainan.

Keywords: *asset management, hotel management, enterprise strategic management*

I. INTRODUCTION

With the construction of Hainan International tourism Island and Hainan Free Trade Port, tourism and hotel industry have developed rapidly. Within a short period of time, international chain brands and domestic chain brands have occupied a place in Hainan market with their strong strength. [1] However, operating a hotel is a high-risk investment, because the hotel operation is highly susceptible to seasonal, competitive and macro-fluctuations in the market, resulting in the uncertainty of cash flow. [2] In addition, from the point of view of real estate management, hotel management has a simple rental structure, that is, its rooms "for rent every day". Despite the simplicity of the hotel rental structure, its success as a real estate investment depends on the hoteliers' operational and strategic ability to effectively manage their physical assets. [3]

In the course of operation, the hotel needs to achieve the dual objectives of increasing operating profit and meeting investors' investment expectations. [4] In this case, the asset management of the hotel is a dynamic, multi-layered process that runs through the entire life cycle of the hotel. [5] From the perspective of the overall development trend of the hotel industry, the role of asset management is becoming increasingly important, because hotel investors need the expertise of asset managers to help them achieve a balance between profitability, cost control and value creation. [6] Therefore, this paper will elaborate the application of asset management in Hainan hotel industry, focusing on the role of asset management in hotel dynamic

management, as well as the role and responsibilities of asset management managers, in order to better understand the role of hotel asset management.

II. HOTEL ASSET MANAGEMENT AND ASSET MANAGER

The primary objective of hotel asset management is to ensure that each hotel in the company's (or group's) investment portfolio maintains the same market price, achieves investors' investment objectives, and ensures that the hotel's operating performance, such as financial statements, is in the best condition. [7] As the intermediary between hotel investors and hotel operators, hotel asset management managers achieve the above goals through performance targets, return on assets (ROA) and market value. [8] Therefore, the overall goal of hotel asset management is to ensure that each asset can obtain the best ROA, and asset management and asset managers must ensure the production of a high rate of return on capital investment through a variety of methods and means. [9] First of all, hotel asset managers play the role of an intermediary between the ownership and management operators in the investment and management of hotels. [10] It should be noted that although the hotel asset manager is an intermediary, the asset manager is actually the agent of the hotel investor, so it has a fiduciary responsibility for the property ownership of the hotel. [11] Secondly, the hotel asset manager links the objectives of the hotel asset to the operation of the hotel in a dynamic, cyclical process. [12] This cycle can be broken down into three parts. First, the hotel asset manager evaluates the

performance of each hotel. Then, he or she develop a value-driven strategy for each hotel based on performance. Finally, once these strategies have been implemented, the asset manager will continue to monitor the implementation of these strategies and provide feedback to make adjustments to ensure that these strategies can deliver a substantial return on the asset.

Although the hotel asset manager must perform several responsibilities, the main responsibility is to consider the hotel's long-term development strategy while ensuring the maximum performance of the asset. Therefore, the basic task of the hotel asset manager is to propose corresponding strategies based on the operation status and financial statement performance of the hotel assets through the constantly changing hotel dynamic market, so as to maximize the hotel property and ensure the interests of the hotel investors. [13] The specific performance is that the hotel asset manager uses all means to maximize the hotel's cash flow while enhancing the hotel's market position to maximize the hotel's return on investment while ensuring the overall asset value. [14] It can be seen that hotel asset managers must be result-oriented, provide reasonable suggestions to hotel owners (or investors), and transform these recommendations into quantifiable results, that is, to use qualitative and quantitative performance evaluation tools to ensure a high level of return on assets. [15] Using a combination of quantitative and qualitative performance means is better than using only a quantitative indicator, because it is difficult for quantitative financial indicators to accurately show the overall benefits of the hotel. Therefore, hotel asset management should not be limited to the benchmark calculation of facilities and equipment management, but should be combined with other directions in the field of strategic management.

Based on the above analysis, it is not hard to see that hotel asset managers must be skilled in reviewing and interpreting hotel operational data and financial reports. Although hotel asset managers are the agents of hotel investors (or owners), while protecting the interests of investors, hotel asset managers also need to take the financial status of the hotel operation and market prospects into consideration in the decision-making. These two points is often full of contradictions in the goal and strategy, though. In order to enable hotel assets and hotel management to effectively play their respective functions, it is necessary to establish a kind of trust relationship between hotel asset managers and hotel operators. Hotel asset managers who are generally able to establish a good relationship of trust with hoteliers have excellent communication and interpersonal skills, have relevant (or similar) experience in hotel management, understand the dynamics of the hotel market, especially the changes of market supply and demand, are able to understand the

management process of the hotel industry from the perspective of the hotelier and understand the structure of hotel assets and the maintenance of key assets. Finally, the hotel asset manager must be a skilled negotiator. Only when the above requirements are met can the hotel asset manager, on behalf of the investors, effectively supervise the hotel management company or management team in order to ultimately ensure that the hotel assets are in a favorable position and the operation and cost control of the hotel can meet expectations and ultimately achieve the profit target.

III. THE COMPOSITION OF HOTEL ASSET MANAGEMENT

Hotel asset management can be broadly divided into 13 basic responsibilities. They are operation analysis and review, asset relocation analysis and strategy, asset location selection and evaluation, review and evaluation of contracts and franchise agreements, the monitor and evaluation of the brand and product improvement strategies, lifecycle management of the hotel investment, risk control and stop loss management, acquisition survey, strategic investment management, capital expenditure and budget management, real estate planning and development management, brand choice, and facilities management. [16] It is important to note that these 13 basic responsibilities do not coexist in the same hotel asset management task. Its importance and necessity depends on the type of property, ownership structure and investment objectives of the investors. [17] Interviews with 35 hotel asset managers of international chain brands in Hainan shows that the Hainan area hotel assets management mainly concentrated in six parts, namely the operation analysis and review, asset repositioning analysis and strategy, review and evaluation of franchise agreements, lifecycle management of hotel investment, risk control and stop loss management, and capital expenditure and budget management.

A. Operation analysis and review

Operation analysis and review in hotel asset management focuses on monitoring the performance of hotel operations and prescribing the frequency of reporting such data. The reports may be daily, weekly, or monthly according to operational requirements. The purpose of analysis and review is to obtain information that can help optimize short-term business performance and help reduce operating costs and increase long-term value without compromising service quality. This requires the hotel asset managers to timely obtain the real hotel business statistics, such as occupancy, average room rate, booking report, market segmentation report, RevPAR, daily and monthly financial statements, and compare these actual data with budget data and market average industry data to find differences and propose rectification opinions.

In addition, the hotel asset manager should analyze the cash flow status of the hotel and other properties to ensure that the hotel and other properties as a whole generate sufficient cash flow to pay financial bills. The information will also help the hotel owner (owner or investor) decide whether to raise funds or share equity dividends. Another important responsibility of operation audit is to analyze the balance sheet of the hotel, such as whether the hotel accounts receivable arrive in time and whether the accounts payable are paid in time. Assessing whether changes in tax and insurance policies will affect hotel cost control is also a basic responsibility.

Finally, in the survey, about 25% of hotel asset managers in Hainan believe that the analysis of hotel operation should include the analysis of hotel guests' evaluation and hotel internal staff's views on hotel management, because any negative evaluation of hotel guests or staff will affect the overall profitability of the hotel.

B. Asset repositioning analysis and strategy

Asset repositioning is a strategic tool that hotel asset managers should consider when a hotel's main target market or major market segments are not performing as expected. In this case, hotel asset managers should conduct market perception difference analysis and analyze hotel positioning from the perspective of hotel customers and hotel brand management. If there is a significant difference between the two and it is difficult to eliminate the difference, the problem of repositioning must be considered, because the difference will cause the overall perceived value or actual value of the asset to decrease. Therefore, hotel asset managers must be able to be sensitive to changes in consumer demand, have a comprehensive understanding of the source of hotel demand, including short-term needs and team needs, and develop the corresponding marketing plan based on them. The positioning of the hotel is very important for the operation of the hotel. In case of improper positioning, the hotel asset manager should suggest the best asset repositioning strategy to the asset owners or investors, such as changing the brand. Other strategies include updating facilities, redecorating, or adding other facilities and services. Updating equipment and facilities, redecorating or adding other service facilities is a common repositioning method in Hainan hotel market, accounting for about 85.7% of the surveyed hotels. Rebranding is unusual but shows an increasing trend.

C. Review and evaluation of contracts franchise agreements

The evaluation and review of contracts and performance agreements is an ongoing process of hotel asset management. All contracts signed by the hotel shall be reviewed by the hotel asset manager to assess

the revenue and value they bring. It should be noted that the audit here refers to the audit of revenue and value, not the audit of legality. For most asset managers, the most important contract review is the franchise agreement review. This is a particularly important part of hotel asset management because franchise agreements can provide a competitive advantage to the hotel business.

Therefore, franchise agreement is generally a combination of commercial terms and legal terms, in which the investor (owner) retains limited rights and assumes most of the risks of the assets. This usually affects the amount of cash flow provided to hotel owners and long-term management. So it is a better choice to evaluate with measurable performance criteria. Typical performance indicators include expected profit guarantee, performance incentive, RevPAR and annual GOP, etc. Bankruptcies, fraud, poor performance and asset sales are all potential legal issues that hotel asset managers should handle with care.

The hotel asset manager should also be responsible for managing the franchise relationship. they should manage the franchise as a hotel asset, as the franchise will generate revenue for the hotel, which will ultimately benefit the owner or investor of the hotel. Therefore, the hotel asset manager carries out in-depth evaluation of each brand to ensure that the selected brand conforms to the characteristics of the asset and the investment objectives of the investor. This requires asset managers to get involved in the brand selection process at the very beginning and assist investors in choosing the right brand to maximize the value and profitability of hotel assets. At present, the franchised hotels in Hainan are mainly some economical international chain brands.

D. Lifecycle management of hotel investment

Hotel asset managers are generally involved in the management of the investment in hotel lifecycle and provide advice to investors at each stage. The investment hotel life cycle usually includes the acquisition phase, the retention/sale/refinancing phase, the relocation phase, and the clearance sale phase. During the acquisition phase, the hotel asset manager must utilize its operational and financial knowledge to ensure that all investors are rational and financially structured in terms of the purpose, objectives and expectations of the project. In addition, asset managers need to understand what investors' investment motivations are and, in particular, why to invest in or acquire target assets. For investing in hotel acquisition, the motivation is nothing more than the ability to obtain cash flow, obtain tax revenue and hedge inflation, diversification of investment risk, asset appreciation and psychological satisfaction. After understanding investors' motivations, the hotel asset manager should

make investment suggestions to them if a project is compatible with investors' motivations. Among the object of investigation in this paper, it is a typical case that Banyan Tree in Sanya was sold off by its hotel owner BTG HOTELS because it couldn't make a profit.

E. Risk control and stop loss management

Risk control and stop-loss are indispensable parts of hotel asset management. The function of asset management in this regard is mainly to minimize investors' exposure to various investment risks and to reduce losses caused by existing risks. Although the risk reduction of hotel asset management does not reflect obvious value on cash flow, it can at least protect investors from the impact of potential legal actions, which indirectly saves cash expenses. As a firewall of risks, hotel asset managers should regularly review hotel assets to identify and record potential risks, such as human-made risks or natural risks. Once the potential risk is identified, the hotel asset manager should develop the corresponding crisis prevention and treatment mechanism. The research of this interview shows that in terms of risk prevention and control, asset managers of Hainan hotels pay more attention to the prevention and control of natural risks.

F. Capital expenditure and budget management

In the process of capital expenditure and budget management, the primary task is to set the capital expenditure target for investors and balance the gap between investors and operators in expenditure. Under this requirement, the hotel asset manager shall ensure that the operating expenses are aligned with the investor's strategic objectives without affecting the operation. At the same time, the asset manager should ensure that necessary infrastructure maintenance costs, such as refurbishment of hotel facilities, are in place and in use in a timely manner. The role of hotel asset management in the capital expenditure and budget process can be simply summarized as the following four functions: supervising the overall maintenance of hotel assets to ensure the timely maintenance of tangible assets of the hotel, which can extend the service life; monitoring the capital expenditure budgeting process to ensure that expenditures are used in a reasonable manner and meet investor objectives; developing effective management plans and monitor the effective use of financial resources; collaborating with investors at a strategic level to determine whether capital assets are necessary or random.

IV. CONCLUSION

From the interview with the asset managers of 35 international chain hotels in Hainan, hotel asset management is one of the most important areas of real estate management of strategic investment. Hotel assets

are part of the income stream of real estate management, and they usually generate positive income through ownership development or acquisition of assets. This requires hotel asset managers to use what they have learned to ensure that hotel assets reach their full investment potential. The main purpose of hotel asset management is to provide a fair perspective for the income generation of hotel assets. Then, the information of asset evaluation should be accurately conveyed to investors, owners, borrowers and other stakeholders, and it can be ensured that the asset management strategy can increase the value of assets, and assist operators to transform their value into profits. This requires asset managers to constantly monitor existing assets to ensure operational performance and asset maintenance. Asset management also requires asset managers to be able to develop final strategies by evaluating and analyzing asset dynamics.

However, as far as the current situation is concerned, many hotel chain operators and managers in Hainan still fail to pay active attention to asset management. It is still common that capital is given more emphasis than asset, and purchase is given more focus than management in the management status of most hotel owners now. Even if the asset management is utilized, it is only part of its functions. If this situation cannot be changed in time to improve the quality of asset management, it will inevitably affect the overall operation of the hotel industry and the healthy development of investment enterprises in the future. Therefore, this paper aims to discuss the role of asset management in hotel dynamic management and the role and responsibilities of asset management managers by illustrating the application of asset management in hotel industry, in order to play a positive role for hotel owners, investors and hoteliers to better understand hotel asset management.

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