
From the Center

Roundtables Focus on Key Issues in Hotel Finance, Marketing, and Law

The Spring 2007 Roundtable season at the Center for Hospitality Research was a strong one, with research presentations and discussion that is absent at conferences elsewhere. This past May we held the first annual Real Estate and Finance Roundtable, the third annual Marketing Roundtable, and the seventh annual Labor and Employment Law Roundtable. While each Roundtable differed in substance and style, there was one constant: that is, industry professionals, faculty, and students were able to spend one concentrated day in an informal atmosphere to learn from each other. The most common parting comment from our participants was the best one: “See you next year.” Below is an overview of some of the key discussion points from the Spring 2007 Roundtables.

The huge tide of private equity formed a backdrop for the four sessions at the Real Estate and Finance Roundtable. Looking at the rise of private equity funds in hotel ownership, participants concluded that private equity is the “new” capital-raising machine for the lodging industry. In fact, Chuck Henry, of Hotel Capital Advisers, Inc., stated, “There is no need to use the public markets to raise equity today.” Jay Shah, of Hersha Hospitality Trust, explained that “public REITs such as Hersha are at a disadvantage relative to private equity because the analyst community punishes us for debt levels in excess of 50 percent, while the private equity funds commonly use debt levels of 75 percent or more.” As further explanation, Alan Kanders, of Lehman Brothers, said, “The privatization of public companies is as much a debt markets story as it is a

private equity story.” Still, as a cautionary note to those who are concerned that the hotel industry is not owned by hoteliers, Chuck Henry stated, “Waves of capital come into the hotel industry because investors are seeking returns superior to alternative investments, not because they love hotels.” In the second session, Professors Jack Corgel and Daniel Quan discussed hedging strategies. In that session Professor Quan provided an introduction to the HQuant Lodging Index (HLI), an investment tool for investors wishing to obtain hotel returns without owning the underlying real estate.

The third session examined mixed-use developments. Mark Carrier, of B. F. Saul Company, stated that “combining land uses is the standard today, not the exception.” The participants noted that mixed-use developments have conflict “baked into” their structure. Careful structuring of infrastructure and property rights can ensure that the divergent interests of the various owners are reconciled. Not only have potential conflicts failed to slow down mixed-use development, but the type of properties found in those developments have expanded from first-class and luxury hotels to lifestyle brands and select service brands. Jim Fisher, of Marriott International, summed up this point: “There are no set rules for lodging in mixed-use developments. Today’s developers seek to include a Springhill Suites in a mixed-use project that combines lodging, retail, residential, and offices uses; while others combine a Ritz-Carlton Hotel, Ritz-Carlton Club, and Ritz-Carlton Residences into a single master-planned development.”

The Marketing Roundtable kicked off with a discussion on the important lessons that the hospitality industry can learn from leaders in the retail industry (e.g., IKEA, Home Depot, Cirque de Soleil) in the pursuit of maximizing customer satisfaction. The problem is that the two industries have considerable operational differences. For example, greeters at Wal-Mart have no other

operational responsibilities and so can focus entirely on assisting customers. There are no such equivalents in hotels. The question becomes: Can a hotel adjust its operational practices and policies to move more assertively toward such a customer-focused stance? Participants agreed that to “borrow” such concepts, we must accurately define hospitality. The definitions offered by participants ranged from “creating uniquely transformational experiences” (John Hach, of eMarketing Solutions) to “distinguishing customer wants” (Cindy Estes Green, of Estis Group) to “do unto others” (Kathy Misunas, of Essential Ideas). There was, however, universal agreement that hospitality cannot simply be trained but must be a criterion in the hiring process.

The panel also considered the potential dangers of leaning too hard on “customer insights.” Howard Wolff, of Wimberly Allison Tong and Goo, warned that customers tell you what you want to hear and what they know. His insight came from constantly asking clients what they are interested in, but he learned that “they are more interested in theirs than in ours.” The main attributes that customers seek are for the product or service to be ever cheaper and faster. Following that advice, companies can go out of business trying to listen to their customers. Instead, the panel agreed that successful companies innovate not from what customers say but what they do not say. After discussing the pros and cons of customer surveys at length, the group did come to two important conclusions. First, most surveys are not only too long, but they fail to focus on action items. Second, the results are learned too late to act on, even if they do get to the right people.

The Labor and Employment Roundtable kicked off with a discussion of the union negotiations of 2006 and the federal Employee Free-Choice Act (so far, approved only by the House of Representatives). Panel members agreed that if a democrat is elected president

in 2008 the Free Choice Act will become law. The panel disagreed, however, over labor's true goal in the act. Dean Harry Katz, of Cornell's ILR School, believes that the unions want card-check organizing and not interest arbitration, while another panel member thought just the opposite. Agreeing to wait and see, the panel then considered the ways in which management decision making is affected by last year's Supreme Court case that expanded the types of employer action that give rise to a retaliation claim. Gregg Gillman, of Davis & Gilbert, explained that because of the ruling it now may make sense to terminate an employee rather than trying to "save him" with a job performance plan. Gillman, along with Fox Rothchild's Carolyn Richmond, noted that employers now need to make a retention or termination decision as soon as they have "cause," because any delay can help support the employee's claim. The next session featured Cornell Law School Dean Stuart Swab and NYU Law Professor Sam Estreicher discussing the Restatement of Employment Law that they are drafting. The Restatement will examine common-law wrongful-discharge claims from each state and develop a body of law that employers can follow. Professor Estreicher reported that employment at will is alive and well in forty-nine states. At the same time, Paul Wagner,

of Shea Stokes, explained that his firm has created for-cause agreements as a part of arbitration and union-free strategy. Finally, I presented a statistical study of sexual harassment cases showing that employers who do not train employees to avoid harassment will still prevail in sexual harassment cases. Ilene Berman, of Taylor-Busch; Joe Baumgarten, of Proskauer Rose; and John Longstreet, of Club-Corp. agreed with the results of the study, but argued nevertheless for training, for two divergent reasons. On one hand, Berman and Baumgarten explained that if a case gets to court an employer needs to show the court that it did everything possible to prevent the harassment. Longstreet's point was that it is better to stay out of court in the first place by ridding the organization of sexual harassment. All three agreed that training is a big part of that process.

As you see from the above summaries, each Roundtable featured distinguished participants, interested students, and lively conversation. It is a thrill for those of us at the Center to host these events. We hope our readers will benefit from these summaries and the Roundtable-based articles that will eventually find their way into these pages.

—David Sherwyn