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Do It »

Purchasing partnerships

Procurement companies can deliver savings to your hotels

By Chris Crowell

ASSOCIATE EDITOR

What if you could keep the same amenities, food and beverage and supplies during this recession, but do so at a lower cost? Well, it's not a foolproof plan, but partnering with a purchaser could provide your hotels this opportunity while streamlining your operations.

Those who most benefit from a purchasing partnership, often, are management companies or organizations with larger portfolios. It's like the old saying about having strength in numbers—the more properties, the more leverage in reducing prices from a vendor. Recently, the Asian American Hotel Owners Assn. signed a contract with Source1 Purchasing to benefit from its Buyer's Advantage program.

"We really want to help our members during this downturn, and one way is through this centralized buying format versus a decentralized format," says Fred Schwartz, president of AAHOA.

AAHOA members can now use their numbers as leverage when purchasing items through Source1's network of suppliers and receive discounts and rebates.

"Centralized purchasing is the most advantageous way to start streamlining overall cost," says Scott Hoffmire, president of Source1.

Although there are no concrete numbers to show exactly how much money can be saved, several procurement companies said a hotel could save anywhere from 5 percent to 10 percent on their food-and-beverage costs. And there could be cost savings beyond F&B. Purchasing company BuyEfficient has categories of F&B, non-food (glassware, silverware, etc.), room items (linens,

amenities), engineering, maintenance and office supplies.

Another debatable number is when it's prudent to leverage your size with a procurement company. The consensus figure is a double-digit portfolio. K Partners Hospitality Group, an owner and operator currently with 15 properties, signed a standard three-year contract with BuyEfficient.

"We're looking for a couple of points on our bottom line and overall return on investment," says Mark Crisci, EVP of investments and development for K Partners. "And that's kind of the goal, whether or not we get there, who knows. We have to make sure [our properties] use it for everything they can use it for."

"I don't know if there's any cutoff point," says Rich Warren, director of corporate sales and marketing for BuyEfficient about the optimal size of a hotel portfolio. BuyEfficient's typical company is a mid-sized to smaller management company.

"Sometimes at a small company, if someone doesn't show up, you're making guestrooms or setting up breakfast," Warren says. "This gets them away from dealing with vendors. ... Now, I'm not negotiating deals with local suppliers; I'm taking 10 minutes and buying everything I need for next week."

"A small hotel doesn't have the clout to arrange for drop size discounts or have the contract language that protects them," Hoffmire says. "Working [with Source1], they have access [to] Cisco, U.S. Foods and many regional distributors that are already in place."

Also, an owner or manager with fewer properties could experience value with procurement companies, beyond the potential cost savings.



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Use It »

Calculate green savings

Prevaling wisdom today says green initiatives will save hotels money. But the amount of money is often vague and difficult to nail down. How much does a green initiative actually save you? Well, the Project Planet Corp. has a calculator on its website that tries to do just this.

Project Planet is a company that provides towel and linen reuse programs to the hospitality industry. A towel and linen reuse program, it is said, will save water, energy, labor and chemicals, and this calculator tries to quantify how much money your hotel will save after a reuse program reduces those variables.

According to its calculator, a 100-room hotel with only a 50 percent occupancy will save \$16,698.75 annually—combining the savings in water, energy, detergent, labor and towel/sheet replacement costs (estimating 54,545.45 gallons of water and 363.64 gallons of detergent are saved annually).

It's possible this calculator skews the number a bit higher than it should, trying to convince you to use its program, but even if you reduce the figure by half, an \$8,000 annual savings isn't too bad either. Maybe adding this program or a similar one to your hotel will give your bottom line the boost it needs in these tough times.

Type the stats for your hotel into the Project Planet Corp. calculator and see if towel and linen reuse can help you. <http://www.projectplanetcorp.com/index.php?go=saveCalculator>

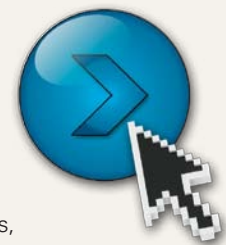
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Continued »

"Don't focus too much on price. How much did your shoes cost you? It's about the value," Hoffmire says, meaning purchasers can provide a more streamlined and informed buying process, which would yield more value for each product. "By working in a collaborative effort with manufacturers and distributors, you can discover what [product] is the best fit."

Using a purchasing company's website or software can remove inefficiencies and needless steps in your buying process. And, if your properties have contracts with certain vendors, you can track how often these purchases are being made and if you are achieving the cost-savings you need.

"It gives management the ability to see a history of what items cost," says John

Davis, CEO of Birch Street Systems, a purchasing software company. "If you buy the same things, it gives you the ability to track what it costs in real time."

Purchasing software often has prearranged folders for various brand standards, or allows you to set up your own favorite categories so your hotel can quickly buy within the brand or personal standards.

"When your hotels are distributed geographically, it can be hard to control each individual property; this allows central purchasing arms and improves relation with the suppliers," says Doug Sanborn, president and COO of Birch Street. But by focusing your buying power, even if it is the buying power of four hotels instead of one, you get more leverage in the negotiation, he said.

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