

THE ART OF SHARING: THE WORLD OF SHARED SERVICES IN HOTELS

A baseline benchmark on shared services for the lodging industry

By Pamela Priscilla Rosique Rodríguez, MS; Agnes L. DeFranco, EdD., CHAE, CHE, CHIA
and Tanya Venegas, MHM, MBA, CHIA

“Houston, we have a question!” — an e-mail came into the HFTP Americas Research Center at the University of Houston about shared services in the lodging industry. Shared services is a very broad topic and has many angles. Are we talking about what functions in a hotel use shared services? Are we looking at how shared services are viable means to increase operational efficiency? What about the technology involved? Although the initial question was quickly answered by the Research Center, the topic of shared services offers an opportunity for further investigation as there is no research that documents lodging shared services; and, thus, there is not a benchmark for comparison.

Shared Services in Lodging

In 2000, industry reports indicated that 16 of the top 20 Fortune 500 companies were using shared services centers (Fiel, Bandara, Miskon, & Gable, 2014). In addition, shared services are strategic facilitators as they reduce costs, help the enterprise grow, improve business focus and enhance talent management. In today's hotel



industry, oftentimes, the owner provides funding for the operation of the hotel and the operator is in charge of managing the day-to-day operation. The operator may be a branded or a non-branded management company, and these companies provide common responsibilities of hotel management that include recruiting, employing, training, advertising, public relations, marketing, purchasing and preparation of financial statements among many others (Detlefsen & Glodz, 2013).

However, if all these functions were to be carried out on-property by each hotel, the overall costs would be very high. Therefore, in the lodging industry, shared services is a common business practice because it helps drive efficiencies, provide quicker outcomes to improve the performance of the hotels, and offer lower management costs and higher quality finance and administration services with a risk mitigating solution (Accenture, 2014a). Marriott, which has operated with the shared services structure since 1999, saw a 25 percent cost savings over 13 years and converted their business services for the hospitality market into industry leaders (Accenture, 2014b).

Pamela Priscilla Rosique Rodríguez, MS (pamelapricilla93@hotmail.com) is a graduate student at the Conrad N. Hilton College of Hotel & Restaurant Management, University of Houston. Agnes DeFranco, Ed.D., CHAE (ALDeFranco@Central.UH.EDU) is a distinguished chair and professor at the Conrad N. Hilton College of Hotel & Restaurant Management, University of Houston. She is also an HFTP Global Past President, chair of the HFTP Global Hospitality Accounting Common Practices Advisory Council and a recipient of the HFTP Paragon Award. Tanya Venegas, MBA, MHM (tanya.venegas@hftp.org) is executive director and HFTP Fellow at the HFTP Americas Research Center. She is a regular contributor to *The Bottomline* and speaker at HFTP educational events.

Collecting the Data

Using both an online survey and phone interviews, data and respondents’ insights were collected to gain knowledge of the functions most commonly used in lodging shared services, their implementation process, the negotiation for the management contract, cost and billing processes, and the value of these services, all to establish benchmarks that this topic can be built upon in the future.

The survey was developed through an extensive literature review and a pilot test to industry professionals. Comments received from the pilot test were incorporated into the survey design. In addition, phone interviews were added to solicit more qualitative insights to the practice of shared services. The survey was sent by the HFTP Americas Research Center via e-mail to executives of management companies in June 2015. A subset of this list of executives agreed to a phone interview in October 2015.

Demographics of the Respondents

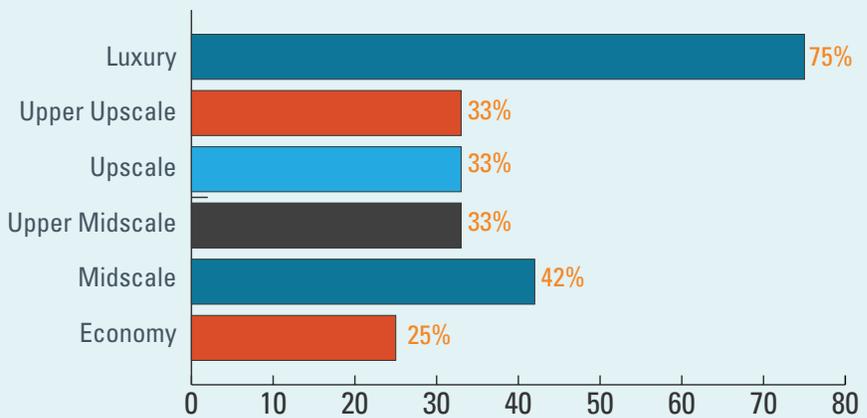
A total of 20 executives supplied data to this study with titles of directors of accounting and finance, chief financial officers, chief information officer, IT directors, vice president of revenue generation, and vice president of real estate investment. The vast majority of the respondents (92 percent) indicated their corporate offices were located in North America and the rest in Europe. Three respondents, which belonged to some of the big global management companies, clarified they were answering just for practices within the United States.

The use of shared services was not new, as half of the management companies in this survey have been operating with shared services for five to less than 10 years and a quarter of the sample for 10 years or longer (As seen in Table 1). In addition, two-thirds of the companies were hotel branded operators and the rest were independent operators. Respondents were also requested to identify the number of hotels the company managed (see Table

Table 1. Profile of the Management Companies

| Time Operating with Shared Services | |
|-------------------------------------|------------|
| | Percentage |
| Less than one year | 0 |
| One year to less than three years | 9.09 |
| Three years to less than five years | 9.09 |
| Five years to less than 10 years | 54.55 |
| 10 years or longer | 27.27 |
| Number of Hotels Currently Managed | |
| Less than 10 | 16.67 |
| 11–20 | 33.33 |
| 21–30 | 16.67 |
| 31–40 | 0 |
| 41–50 | 8.33 |
| More than 50 | 25.00 |

Figure 1. Chain Scale Categories in Portfolio



1); and, it is also interesting to note, that these 20 respondents represented over 315 hotels.

Hotels Using Shared Services

The majority of hotels operated (92 percent) are located in North America and the rest in Europe, which matched

with the location of the corporate offices from the management companies. The most popular range for the average size of the hotels with whom the management company had agreements were 100–200 rooms (41.67 percent), followed by 201–300 rooms (25 percent), and 301–400 rooms (16.67

Figure 2. Number of Shared Services Centers

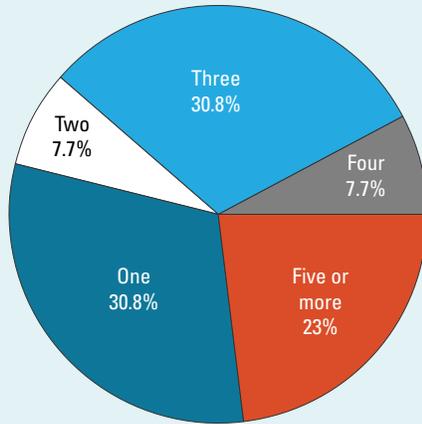


Table 2. Organizational Structure of Shared Service Centers

| Organization of Shared Service Teams/Centers | |
|---|------------|
| | Percentage |
| Central Corporate Office | 66.67 |
| Geographical location (not residing in a hotel) | 25 |
| Geographical location (residing in a hotel) | 25 |
| Regional Corporate Office | 16.67 |
| Managed by a third party operator via the cloud | 16.67 |

percent). However, the average size of the hotels might have been impacted by very large properties which skews the average upward. Such was the case for one of the management companies who responded, “We have 1,800 room hotels, 1,000 room hotels, 400 room hotels and 100 room hotels. Our average would be probably 300 to 400 hundred, somewhere in there.” As for employees, a third of the respondents had 101–200 employees per hotel, a quarter reported having less than 50 per hotel, while another quarter reported more than 300 per hotel. These 20 management companies also have hotels in various chain scales (See Figure 1, page 18).

Organizational Structure of Shared Services Centers

When asked about the organization of shared services centers, it was found that most hotel management companies either had one or three centers (61.54 percent). Figure 2 (above) displays the other responses. As for the number of employees at those shared services centers for each function, research has indicated shared services are helpful to reduce staff and optimize on resources; thus, most of these SSCs are quite small, having less than 50 employees.

The location of these shared services centers also varied. While most hotel management companies (92 percent)

reported having at least one shared services center in North America, these centers were also located in Europe (15.38 percent), South America (15.38 percent) and in the Asia Pacific region (7.69 percent). The main reasons reported for the determination of the shared services location were an educated workforce (46.15 percent), followed by low cost market (38.46 percent) and other (38.46 percent). From the interviews, executives elaborated the “other” category to include “close to where the hotel company manages,” “where the company does the service,” “where we live,” “legacy,” and “the management company already owned the building.”

Four executives indicated that their shared services centers had a specific corporate officer/director/manager that represented the discipline or function of the respective shared services center. Another management company had a designated corporate officer/director/manager with complete oversight of all shared services centers and one other management company had a regional officer/director/manager with complete regional oversight of all shared services centers (See Table 2).

Shared Services: Functions and Usage

The executives were asked what functions used shared services in their hotel company and whether “all” or “some” of the particular function was shared. In this case, “some” would mean the function is performed in a central location and shared for several hotels, but is also performed by particular staff in the hotel for that single location. It may also be that not all operated hotels by the management company, but only some, are in the shared services function. An example would be a big management company such as Hilton, Starwood or Marriott, that does promotion and marketing for all its owned and franchised hotels that carry the brand, which is shared services; however their single hotel locations would still have a team or a person in charge of sales and marketing.

As seen in Table 3 (right), accounts payable was the function with the highest “all” percentage (70.59 percent) of usage, followed by tax (66.67 percent) and payroll (58.82 percent). When looking at the functions that have “some” shared services, sales and marketing had the top spot (60 percent), followed by revenue management (43.75 percent) and IT support (35.39 percent). Finally, the functions with the highest percentages of not using shared services were accounts receivable (40 percent), income audit (33.33 percent) and reservations (28.57 percent).

Insights into the Implementation Process

To ensure success of shared services, a few major points needed to be in place during the implementation process.

Technology. First, technology obviously plays an important role in the use of shared services. Thus, management company executives were also asked about how many technology platforms were used for their shared services.

The majority reported having two (25 percent), three (25 percent) and more than five (25 percent) platforms. It was also more common for organizations to move into shared services after a technology change (63.64 percent), as the new technology facilitated the shared services operation. However, such transitions may be rough for employees because they need to adapt to both a new technology and a new process at the same time.

Function. As for how a company determined whether a function is an optimal fit for the shared services environment, often it was determined by studies conducted by internal management (36 percent), driven by the need to minimize cost (29 percent), and others such as directive by management company/ownership, current vendors’ suggestion, and cost and benefits studies.

Testing. Management companies were also very astute, as the majority (69 percent) would test the function at a select group of locations before full release or test at a single location (23 percent) before full release. Just a small

Table 3.

Functions in Shared Service Environment

| | All (%) | Some (%) | None (%) |
|---|---------|----------|----------|
| Accounts Payable | 70.59 | 17.65 | 11.76 |
| Tax | 66.67 | 20.00 | 13.33 |
| Payroll | 58.82 | 29.41 | 11.76 |
| Cash Management | 56.25 | 25.00 | 18.75 |
| General Accounting (Month End Closing/Reconciliation) | 56.25 | 31.25 | 12.50 |
| IT Support | 52.94 | 35.39 | 11.76 |
| Human Resources | 50.00 | 31.25 | 18.75 |
| Income Audit | 46.67 | 20.00 | 33.33 |
| Reservations | 42.86 | 28.57 | 28.57 |
| Revenue Management | 37.50 | 43.75 | 18.75 |
| Accounts Receivable | 33.33 | 26.67 | 40.00 |
| Sales and Marketing | 13.33 | 60.00 | 26.67 |

percentage (8 percent) decided not to engage a test group and went for full implementation at one time. This was a high risk decision. One executive added, “In the implementation process they are tested at a large group; and, if a problem is found, the problem is solved and then they continue to roll out.”

Cost Allocation. Of course, there are also implementation costs associated with initiating a shared service. Some management companies allocated this cost among participating hotels and recorded it as an operating expense (33.33 percent) while others recorded it on corporate/management company’s books as an operating expense (33.33 percent). Only 8.33 percent allocated it among participants and recorded it as a capital expenditure. The remaining 25 percent responded “other” which included “allocated among participants, but the recording depends on the owner,” “capitalized or expensed based on GAAP guidelines” and “it depends, if it is training it is treated as an operation expense, but for equipment it may be a capital expenditure.”

Agreements and Requirements

Service Level Agreement. Transparency is the best practice. Thus, a service level agreement (SLA) is a useful clause or section in a management agreement to set forth the expectations for all parties and determine how feedback will be provided in any shared services. One surprising piece revealed in this study was that a slight majority (over 50 percent) was not using an SLA. The lack of an SLA may lead to a blurred perspective of all parties of whether the function in the shared services environment is being performed with quality and it is being effective.

Optional vs. Mandatory. Some management companies made it optional for their properties to participate in their shared services while others made this a requirement per the management agreement. The majority (53.85 percent) of the management companies made shared services mandatory. In addition, some management companies (38.46 percent) made all functions optional for the hotel, while a few companies (7.69 percent) made it hybrid,

Figure 3. Basis to Determine the Cost Charged for Shared Services

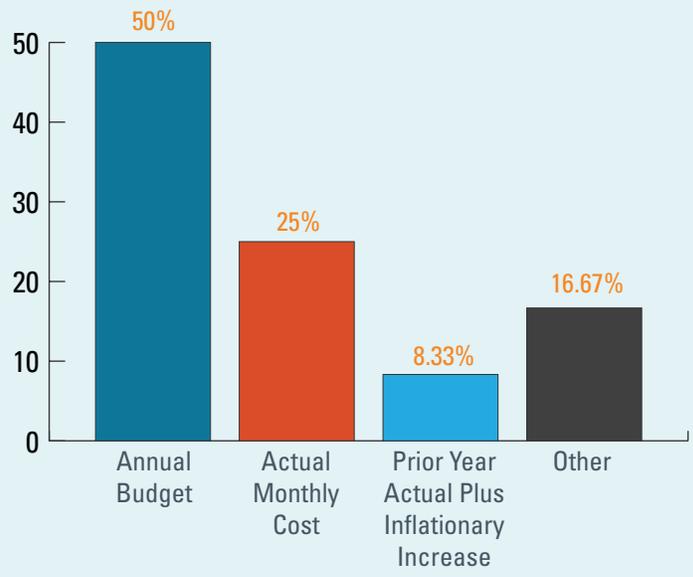


Table 4. Billing Method per Function to the Property/Owner

| | % of Revenue | Per Transaction | Fixed Rate per year | Other |
|--|--------------|-----------------|---------------------|--------|
| Accounts Payable | 12.50% | | 75.00% | 12.50% |
| Accounts Receivable | 16.67% | | 66.67% | 16.67% |
| Cash Management | 12.50% | | 75.00% | 12.50% |
| General Accounting (Month End Closing/ Reconciliation) | | | 87.50% | 12.50% |
| Human Resources | 11.11% | | 77.78% | 11.11% |
| IT Support | 11.11% | 11.11% | 66.67% | 11.11% |
| Payroll | 10.00% | 10.00% | 70.00% | 10.00% |
| Reservations | 12.50% | 12.50% | 62.50% | 12.50% |
| Revenue Management | 11.11% | | 77.78% | 11.11% |
| Sales and Marketing | 28.57% | | 71.43% | |

where some functions were mandatory while others are optional. In this hybrid model, the mandatory functions tend to be accounts payable, general accounting and IT support. As one executive put this, “There have been some mandatory programs that we have rolled out like our accounting system (back office

system). In order to do our reporting, everything has to come to one another. But there are some things that are optional like revenue management.”

Cost and Billing

When cost and billing were discussed, a third of the companies viewed shared

services as a break-even function, 25 percent saw this as profit centers, and the remainder varied, depending on the actual function. Having this in mind, Figure 3 presents the basis used to determine the cost charged for shared services (at left). Half of respondents used the annual budget, which might include a mark-up for those management companies that see shared services as profit centers. A quarter uses actual monthly costs. Responses in “other” were “a combination of the actual cost of running the center today plus an amortization of either some or all of the start up cost” and “each discipline has its own way.”

As for shared services billing to the property or owner, a fixed rate per year is the most widely used regardless of the function. The percentage per revenue, per-transaction, or even per available room were also used, but only by very few companies (See Table 4, at left).

Some of these billing methods, such as a fixed rate per year, might result in charging the owner of the property/hotel more than actual costs incurred for each shared service. Therefore, some management companies would provide the ownership monthly (25 percent), quarterly (8.33 percent) or annual (8.33 percent) information regarding these costs. However, the remainder, which was also the majority, would not. As one executive shared, “We do not reimburse owners; however, we adjust our pricing. We may go three years without a price increase because we have a little overage. We set the price with the goal to break even; and, more often than that, we end up in the other side where we didn’t charge enough.” Again, transparency and fairness are the keys to success.

Value

What is the value of having shared services? Are they having a positive impact on our guests and employees? Thus, assessing value is important. As an executive commented, “When we try something and it doesn’t work, then we get to put it back. So, there are different levels of success. We need to

have sensitivity of where it is working and where it doesn't.

Management companies used different measurements for "value." The more common ones were man-hour per service (30.77 percent) and per unit cost factors (15.38 percent). Then there were many others such as "per transaction" and "agreement between owner and manager." One executive responded with more insight: "The thing is it has to work. Man-hour reduction would be beneficial. But there are much more other things to take into account. There are a couple of places where we have centralized sales and in some cities it didn't work; and, in other cities, it did work so they're still intact. It does not only have to be man hours reduced, because if you're not booking business, if the revenue is not going up, then there's a problem, and if the meeting planners are unhappy, then that could be a problem, if the owners are unhappy, that could be a problem. Everybody has to be happy and it is very difficult to get that situation. That's why some hotels are centralized and some are not. You are trying to be as efficient as you can, but no two hotels are alike."

Besides measurements, the impact of having shared services on both internal customers (employees) and external guests (customers) was also important. Table 5 shows a comparison of the increase of satisfaction for employees and for customers when moving functions into a shared services environment. The functions with the highest increase in satisfaction for employees are general accounting, revenue management, payroll and reservations. Additional comments from different executives also provided a wider perspective:

- "HR hasn't been an increase for employees because they think it is not a lot of value having an on site resource, and for sales, employees would say the value of having sales-people there at property to work with them is the same as having them on the phone to say how to provide services to large customers;"
- "[Shared services] is usually a decrease of satisfaction for employees, is not as big as you might think. You

Table 5. Satisfaction Increase Comparison of Employees and Customers per Function

| | Increase in Satisfaction: Employees Ranking | Increase in Satisfaction: Customers Ranking |
|---------------------|---|---|
| General Accounting | 1 | 6 |
| Revenue Management | 1 | 7 |
| Payroll | 1 | 4 |
| Reservations | 1 | 3 |
| IT Support | 5 | 5 |
| Cash Management | 6 | 7 |
| Accounts Payable | 7 | 2 |
| Sales and Marketing | 8 | 1 |
| Accounts Receivable | 9 | 7 |
| Human Resources | 10 | 7 |

might lose 10 to 20 people in the hotel and then have to add 5-10 people in the shared services center;"

- "I would say to the internal customer is a decrease."

As for our guests, the increase in satisfaction, when moving into shared services, was seen in sales and marketing, accounts payable, reservations and payroll. Comments regarding customers from the different executives included:

- "In the case of accounts receivable and accounts payable, it's been an increase for customers and they would be neutral in everything else;"
- "There should be no impact on customers;"
- "For the customers it is the same;"
- "Increase in satisfaction for customers in reservations and the marketing functions."

Industry Benchmark and More

This study serves as a baseline benchmark on shared services for the lodging industry. First, shared services are beneficial for all types of hotels. Management companies may be branded operators, independent operators, operating hotels of different chain scales from

economy to luxury, however, they all can take advantage of shared services. It is all about the economies of scale and to find a way to be effective and efficient for everyone. If mandatory is not an option, management companies may determine a hybrid model to start by making some functions mandatory and others optional. These decisions require a more in depth evaluation that includes the cost of developing the technology for the shared service, the expertise the management company has for each function, the affordability of the hotels to have someone on-site and the value as well of having someone on-site.

Second, technology is used in most shared services. Technology does not only help hotels to become more efficient, but also provides freedom for the location of shared services. Companies can take advantage of what is important to the organization such as close to where they manage their hotel portfolios, cost of living, cost of business (rent cost) or educated work force.

Third, a good, fair and transparent service level agreement (SLA) is important. All management companies should be using SLAs in the management contract. An SLA will help both

parties to improve communication, set forth expectations, clarify responsibilities and build the foundation for a nurturing relationship. The process may not be simple or quick, but will enhance the value of the shared services in the long run as it will clarify the need and priorities for each party and provide a way to measure the effectiveness of the function in the shared service.

Fourth, if a hotel is contemplating implementation of shared services, perhaps it is wise to select the most used ones to start, as they are more tested. These may include accounts payable,

tax and payroll.

Fifth, it is always a good practice to employ a pilot test in starting any process. Before implementing any shared services in all the hotels, management companies should test a large group of locations to flesh out problems or errors. Otherwise, a potential problem may not be detected in time and the costs of solving the issue while the shared services have already been introduced would be higher.

Finally, the billing process is vital to the success of the entire shared services environment. Cost and billing needs to

be a fair business partnership. Honesty is the best policy in any relationship. Transparency and fairness in billing will increase the trustworthiness of the process, making the owner-management company engagement a win-win relationship. ■

Acknowledgements

The authors would like to thank Arlene Ramirez, Christopher S. Garland, and Brad V. Hayden for their assistance in designing and developing this project. Their input was invaluable in making this project a success.

References

- Accenture (2014a). From Reservations to Results Beyond Barriers to Outsourced Finance And Accounting Shared Services. Retrieved from <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-From-Reservations-to-Results.pdf>
- Accenture (2014b). Room for Change How Marriot Transformed

Hospitality Finance and Accounting. Retrieved from <http://www.accenture.com/sitecollectiondocuments/pdf/accenture-marriott-shared-services.pdf>

- Detlefsen, H., Glodz, M. (January 2013). Historical Trends Hotel Management Contracts. *HVS Global Hospitality Report*. 1-17. Retrieved

from <http://www.hospitalitynet.org/file/152005027.pdf>

- Fielt, E., Bandara, W., Miskon, S., Gable, G. (March 2014). Exploring Shared Services from an IS Perspective: A Literature Review and Research Agenda. *Communication of the Association for Information Systems*. 34 (54) 1001-1040.



Pineapple Search.comSM

Produced by **HFTP** 

First-ever search engine focused solely on resources for the global hospitality industry.

Exclusive Content

The following are available free to registered users.




CURATED CONTENT ONLY
Pineapplesearch.com aggregates curated industry content from multiple sources.

NON PROFIT
Pineapplesearch.com is operated by Hospitality Financial and Technology Professionals (HFTP), a global professional association in the world of hospitality.

CUSTOMIZED NEWS
Pineapplesearch.com filters and delivers news specific to a registered user's pre-selected interests.

OPEN PLATFORM
Pineapplesearch.com is an open platform ready for content submissions by all industry stakeholders.

Find details on all **HFTP** events on **Pineapplesearch.com**

→ Start searching at ***www.pineapplesearch.com***

Powered by hsyndicate • info@pineapplesearch.com