

Purchasing companies face lead times & overseas challenges

BY LAUREN ESPOSITO

NATIONAL REPORT—The high volume of new hotels being built and equally as many, if not more, hotels undergoing extensive renovations has been very good news for purchasing companies over the past couple of years. However, it has also left them having to deal with longer lead times and quality issues because of the growing number of products being manufactured overseas.

“Our total volume is up about 25% this year compared to 2006 and we’re projecting 40% growth in 2008. The industry is still so robust right now,” said Gregory Kadens, COO of American Hotel Furnishings. “We’re doing a lot of branded mid-market work as well as some timeshare and independent hotel projects and have about a 50/50 split of new construction and renovation projects.”

Dennis Baker, president and CEO of Avendra, attributed the increased number of hotels to rising RevPAR. “There is still more demand than supply and RevPAR continues to increase. If you want to raise your rates from \$200 to \$275, guests want to get something more for their money— flat-screen [televisions], upgraded bedding, etc. That is fueling our business— the push to provide added value to the guest,” he said. “I expect that to continue into 2008.”

Bill McBain, president of Hospitality Purchasing Consultants, also commented on the seemingly infallible health of the hotel industry. “Everything from hotels to timeshare is very healthy. It’s not irrational exuberance; we’re seeing good solid projects with good funding,” he said, but added the condo hotel market seems to have softened. “The condo hotel segment has softened a bit, especially those in urban markets. But the ones in resort locales are still going forward.”

The spiking costs of raw materi-

als, fuel and construction, however, are still causing difficulties for purchasing agents. “Costs have been a real budget killer,” said McBain. “It started to become a real problem post-Hurricane Katrina. Developers saw an immediate rise in the costs of concrete and steel, and [furniture, fixtures and equipment] was about six months behind that. Since then,

lar. We’re getting quotes from manufacturers there and they’re only guaranteeing the pricing for a week,” he said.

But obtaining product that has been manufactured overseas has become a way of life. “It’s difficult to find product that is manufactured domestically these days, especially for lighting and case goods,” McBain reported.

and the case goods were coming from China and we could not get them on a boat. In the end, we had to pay extra to get the products to the hotel on time. For many owners, time is of the essence and they’re willing to pay a little bit of a premium to get a product on time,” said McBain.

Kadens added that he is starting to see domestic manufacturers make a comeback. “Lead times have brought domestic case goods back into play. A product from China might take 15 weeks and a product here might take six to eight weeks. That’s a big difference. American manufacturers are doing a good job to streamline their operations in order to compete more effectively,” he said.

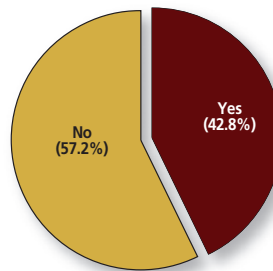
For those that must resort to obtaining FF&E from overseas, the major issue is still quality. To help alleviate problems, Baker noted detailed contracts are crucial. “You want to ensure you’re going to get what you need and what you’re paying for. That starts with setting very detailed specifications and then having the capabilities to inspect product to ensure what you’re getting complies with those specs. You need to ensure your contracts provide the appropriate protection,” he said. “If specs are too vague, that’s where you get into trouble. Then you don’t know exactly what you’re going to end up with.”

When it comes to the sustainability movement, the response among purchasing agents is mixed. “I was skeptical at first, but it has gained traction in a lot of segments. There’s still a lot of lack of clarity, though, about what it means to be a sustainable product,” said Baker.

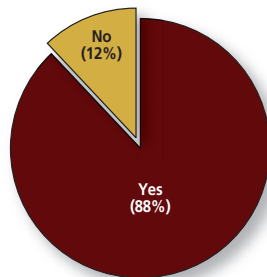
According to Kadens, the use of green products in hotels still has quite a ways to go. “We’re not finding owners are asking for it at all in the mid-market segment. It’s still really more the independent, boutique and high-end hotels that are interested in sustainability.”

Projects and services offered by purchasing companies in 2007

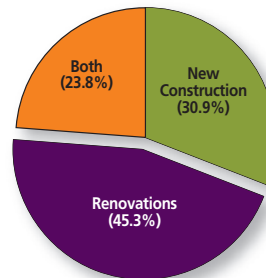
Purchasing firms offering design services:



Purchasing firms offering installation services:



Majority of projects for purchasing firms:



Source: HOTEL BUSINESS® 2007 Purchasing Survey

we’ve certainly gotten better at planning freight estimates and sourcing.”

Also causing headaches is the value of international currency, according to Kadens. “Vendors are located all over the world. Right now, in particular, the Canadian dollar is on par with the U.S. dol-

But with the increased lead times and freight costs that now come with overseas manufacturing, the U.S. is making a comeback.

“If you factor time and cost, overseas products are not always that much cheaper compared to U.S. manufactured product. We were working on a project in Bermuda