Technology Due Diligence Tips for Hotel Acquisitions

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By David M. Scolnic

Hotel acquisitions are hot, with many hotels achieving double-digit offers within days after being put on the market. If you are lucky enough to be the winning bidder, you are probably pretty excited and not a little daunted. Did you pay too much? You probably don't have time to think too long about that: in this market, you will have 30 to 45 days for due diligence to make sure that not only is the hotel worth what you are paying but also that once the hotel is yours, you can have it running seamlessly despite the change of ownership.

Of course, you will have a team of people pour over the books, investigate the physical plant, check for liquor licenses, review title, survey, environmental, technology . . . wait, technology?

Yes, technology. Gone are the days when anyone with a tie to a central reservation system could just assume that the technology will work itself out. Not surprisingly, the pace of change, innovation and consolidation in technology means that careful thought needs to be given to how technology is managed through the acquisition.

The number of different hospitality interacting systems (and acronyms) has exploded in recent years. They include CRS (Central Reservation System); POS (Point of Sale system), GDS (Global Distribution System); PMS (Property Management System) to name just a few. Many of the systems are built on a patchwork of programs dating back to the 1970s, and while some are proprietary to specific hotel brands, others are stand-alone systems, which could be used in any hotel. Combining these older systems with modern platforms can be difficult.

Whatever the difficulties, putting off dealing with technology issues can be a recipe for disaster - or at least a recipe for the unanticipated expense of essential technology upgrades after closing. Before closing, and preferably before the due diligence period expires, the smart purchaser will have figured out how to integrate the hotel's technology with the purchaser's owns systems.

So how to begin? Certainly the first question is whether the flag or management is to be retained following closing. If a new management team or a new flag is to be introduced, a host of changes will all happen at once.

But a client cautions that it's not easy even in the best of circumstances. As Gary Merron, CFO for Real Estate at Roch Capital told me, "Even if you retain existing management and keep the same flag, it can still be frustrating."

"The biggest headache," explained Merron, "is that point of sale and other 'front-office' programs do not work well with 'back office' programs," which perform higher level accounting functions and track performance. And to make matters worse, the number of those programs is bewildering, so even if the new ownership retains the existing POS system, the odds are that there may be some change in where that information goes and how it's used.

Merron's experience is not unusual, says Dr. Peter Agel, Global Segment Leader -Hotels for Oracle Hospitality. But Agel believes that the future is brighter. One of Oracle's main goals, he says is "to reduce complexity and cost by providing cloud based services." Such services, coupled with increasing consolidation in the hotel technology industry, leads Agel to believe that in the future hotel technology will be far more standardized.

Agel knows something about consolidation first hand. In September, 2014, Oracle acquired MICROS, one of the leading providers of POS systems used by over half a million hotels, restaurants and other operations. Taking one of the biggest POS providers and marrying it to one of the world's leaders in business software has the potential to create products that will ease the minds of many a tortured CFO.

Although solutions easing complexity are increasing, the proliferation of new technology may create as many problems as it solves. With every innovation, the hotel owner will need to be ready to react not only for existing hotels but also for hotels that are acquired. Only those with sophisticated, nimble IT capabilities and adaptable budgets will easily be able to handle those new challenges.

In sum:

- Don't wait until after due diligence to consider technology issues
- Look for new technologies that integrate front and back office functions
- Keep up with technology advances in your existing portfolio - you don't want to upgrade your technology while you are acquiring a new hotel

About David M. Scolnic

David M. Scolnic is a shareholder of the firm of Hangley, Aronchick Segal Pudlin & Schiller. Mr. Scolnic routinely advises clients with regard to commercial real estate and the hospitality industry. He is a nationally recognized leader and has extensive experience representing developers in all phases of their activities. From purchasing raw ground through leasing and financing of office, retail, industrial, hospitality and residential buildings in urban and suburban areas.

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