

Customer & Market Due Diligence Of Hospitality Services Provider: Establishing Post-covid Market Outlook And Outsourcing Dynamics

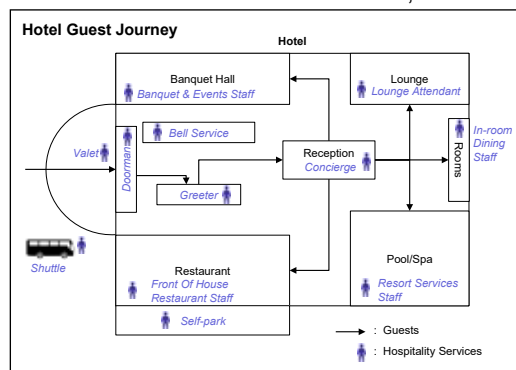
The Challenge: Our client, a large PE firm, was looking to invest in a hospitality services provider offering parking and other services to hotels and healthcare facilities. The industry was significantly impacted during covid but had since bounced back and our client wanted to get a clear picture of the current market, risks, and the target's growth outlook. As such, our client asked Gotham to conduct a 3-week customer & market due diligence to establish: (1) the target's competitive positioning and differentiation; (2) the addressable hospitality services market size, key trends, and growth outlook; (3) the target's revenue stability and recession risk; and (4) the target's growth opportunities.

Local Market And Competitive Dynamics Assessment: Gotham undertook a multi-pronged approach:

- Conducted 46 anonymous interviews with and 94 responses to our online survey of customers, non-customers, competitors, and parking consultants to gain insights into: outsourcing dynamics, purchasing behavior, impact of rideshare and covid, target's reputation, and expansion opportunities
- Built a hospitality end-market model at the hotel level, leveraging industry data, taking into account urban/suburban/airport parking dynamics, hotel price points, number of parking spots & rooms, and self-parking vs. valet dynamics at each hotel
- Developed a hospital end-market model to estimate market size by service type based on number of available beds at each hospital, leveraging a database of all U.S. hospitals
- Built a detailed database of parking service players and created a market-by-market view of the competitive landscape for 33 major geographic markets to establish the target's geographic presence along with future acquisition targets
- Conducted a profitability analysis examining revenue and margin profiles by customer and service type, with views by end-market, contract type, geography, and customer tier; also developed a customer retention analysis establishing customer trends and differences in parking dynamics between new, lost, and ongoing sites
- Built a recession model to understand the impact on the target's revenue and gross margin based on occupancy decline, daily visitor volume decline, leisure vs. business traveler mix and its impact on drive-in rate, and a shift from valet to self-park.

Increasingly Outsourced Hotel Hospitality Services Are Procured On The Local Level

Hospitality services (e.g., valet parking, doorman, bell services) are an integral part of the guest experience at high-end hotels and serve as the first point of contact with guests. As such, they require staff that is well trained in customer service, with hotels having increasing difficulties hiring such staff. Combined with liability concerns, this has led to 90+% of luxury and full-service hotels currently outsourcing valet parking and beginning to outsource doorman, bell service, and other positions as well. The procurement of these outsourced services is done locally by the hotel general manager in an informal process and managers typically renew contracts with existing providers if satisfied with the service. The hotel hospitality services market was decimated during the pandemic due to a fall in bookings, with many hotels cancelling valet service, but the market has since rebounded to above pre-pandemic level and is expected to continue growing due to increased hotel occupancy and staff wage increases. Demand also remains strong during recessions as hotels try to maintain occupancy levels by lowering room rates and the guest mix shifts to more leisure travelers who have higher drive-in rates.



Hospitals Outsource Various Non-clinical Services Through A Formalized RFP Process

Hospitals outsource valet parking and occasionally other non-clinical services such as patient greeter, lobby ambassador, inpatient transport, equipment porter, and observational patient sitter. Concerns about patient care quality stand in the way of wider outsourcing by hospitals. Valet parking is offered to patients and guests as an amenity with the goal of breaking even, while self-parking management is kept in-house and is revenue-generating. Services are typically procured through a formalized RFP process where the submissions are evaluated by a selection committee from transportation, patient services, and procurement departments. Some hospitals, however, belong to group purchasing organizations that procure these services centrally. Contracts tend to be renewed; however, many hospitals have requirements to bid out the services periodically. The hospital end-market experienced limited impact during covid. Going forward, the market is expected to experience stable growth due to the increasing wages of non-clinical hospital labor.

Valet Services Market Is Local In Nature And Fragmented With Many Barriers To Entry

While there are >400 parking players in the market, only a small number are able to compete for large hotel and hospital contracts due to the associated high insurance requirements. Competition for these large contracts is highly localized as services are dependent on local hiring capabilities and customer density that allows staff to be moved from location to location based on need. A different set of players have a strong presence in each market, precluding the establishment of national contracts. Competitive success is also influenced by the players' asset situation, with asset-heavy parking providers being able to leverage their access to parking infrastructure to outcompete asset-light service providers for contracts with hotels that do not have their own parking facilities. In all, there are 4 major parking players offering valet services nationally and 10 midsized players with either a service or geographic specialization. Another ~50 strong local/regional players have sufficient scale to compete for large contracts.

The Outcome: Gotham's fact-based approach provided our client the customer and competitive insights needed to gain comfort with the target's future outlook and clarify its margin and recession risk, allowing our client to confidently close the deal.