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# Adapt, Survive and Overcome

## *The Fundamental Effects of the Downturn on Hotel Practices and Strategy*

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**EVERY CLOUD HAS A SILVER LINING**

Yes, these are challenging times for hoteliers; they have had to be very creative to make the most of these difficult trading conditions. But as one door closes, another opens, and this article describes some of the opportunities that are being taken up in various hotel markets, with the aim of not only improving hotel trading conditions in the short term, but also improving hotels' positioning and competitiveness long after the recession is over.

**WHAT HAPPENED?**

The current recession is different in many aspects to previous ones, as it is a crisis in consumption confidence amongst other things. Whilst the worsening of trading performances over the past 12 months impacts the main hotel markets, it is important to understand how hoteliers can challenge the status quo by understanding the fundamental changes in demand and better adapting their current hotel product to this shifting environment.

**Where am I? And where should I be?**

As travel expenses have now come under intense scrutiny and travellers are inclined to downgrade to a hotel in a lower category, the positioning of hotels has become crucial. Whilst some hotels with a clear and established positioning may benefit from this temporary displacement of guests, a hotel with an ambiguous positioning is likely to suffer more.

Hotels that attempt to be spread over two categories are likely to have to stretch their promise/delivery package in order to fill rooms. Whilst this strategy may (or may not!) guarantee positive results in the short term through temporary increases in market share, it is likely to place the hotel in a weaker position after the downturn as this strategy fails to build a loyal customer base.

**Where are my bookings? I can't see them!**

If the booking lead time was already getting shorter before the recession, in the aftermath of the recession's initial impact hoteliers are witnessing an even more dramatic shortening of lead times. The crisis in consumption confidence affects the ability of most businesses to quantify and predict their travel needs and resources. Revenue management techniques that resulted in great business years for hotels in the recent past now appear to be difficult to apply to the current circumstances. Nowadays, corporate travel strategies tend to be more reactive rather than proactive; hence, the last minute booking is the norm now more than ever. All travellers now look for and expect deals, while corporate travellers are not motivated by price alone. One should ensure a balance between price discounts and explicit added value, by including additional services for instance. A common example would be

complimentary Internet access in the room as part of the room rate for negotiated contracts.

**Who are my customers?**

The decrease in corporate travel, the declining attendance at major exhibitions and trade fairs, and a more contained decrease in leisure travel have resulted in a magnified market share for the Leisure segment. Therefore, although the recession has damaged the business outlook for hotels in the short term, it has meaningfully altered travel patterns and challenged hoteliers' ability to adjust to a new market profile.

Although the trend towards more online bookings is not fully attributable to the downturn, the practicality of online platforms in comparing hotel deals has proved increasingly popular in the current environment and has had various effects on hotel sales strategy.

Hotel sales generated through online travel intermediaries are adding a layer of opacity to tracing customer profiles. Hoteliers are seeing an increase in online bookings and increasingly cannot differentiate whether these bookings are business or leisure oriented. The more ad-hoc, limited demand and the increasing trend to book online makes it even more challenging for hoteliers to forecast and foresee any upturns (or not) in demand. As a result, the traditional corporate, meeting and leisure segmentation of a hotel's patronage may be challenged by a new system of segmentation based more on booking channels.

In the short term, hotel management has aimed at maximising their property's presence on travel intermediaries' websites while trying to select the right platforms for the brand/customer fit and related costs (commissions, annual fees and so forth).

This situation, however, may have some longer term consequences. Prior to the downturn, hoteliers attempted to drive booking traffic towards the hotel's website in order to maximise brand recognition and reduce booking costs. Therefore the decision of some hoteliers to use online intermediaries will reinforce their reliance on these intermediaries and to some extent cancel out the efforts invested in online distribution in the recent past.

**HOW DO I TAKE ADVANTAGE OF IT?**

If hotels' market positioning has been altered recently, an obvious reaction of hoteliers has been to review their product offering, cost structure and overall strategy for the short and medium term. The following paragraphs present some of the initiatives we have witnessed in the course of recent visits to some of the main hotel markets in Europe.

**What about branding?**

Hoteliers more than ever now aim to 'fish for demand' in new or uncharted markets where there is less competition. In this sense, brand leverage is very useful when sourcing business. Following on from the

brand promise/delivery package mentioned previously, it is important to ensure the fit of a brand within a market and the hotel's physical product meets brand standards. Whilst some hotel owners may be wondering if the franchise royalties and management fees they are paying are good value for money, a number of hotel owners are seriously considering adding a brand. Increased exposure through the various distribution channels that a chain is likely to bring on board, industry know-how, marketing plans, customer recognition and loyalty programmes are some of the key attributes that a brand can bring to a hotel to help it cope with this recession and beyond.

However, going for a management contract may not be an obvious reaction when focusing on more upscale hotels. When it comes to management contracts, owners and operators are still not coming to an agreement in terms of sharing the risk that the recession is exposing hotels to as operators make few concessions when it comes to their fees and owners may be faced with daunting debt repayments and thin bottom lines. Franchises and affiliations could therefore be the way forward. From our discussions with hotel operators, we understand that there is currently an increasing interest from independent hotels in the franchise model, and this should become even more apparent in the near future.

**Give more value through packaging**

The aim of this is not so much to drop rates, but to include other components in the room offering in order to attract more demand, especially from leisure guests. Examples of such packages include free breakfast, a free (short) spa treatment, and four room nights for the price of three. This initiative adds value for the customer, can help drive demand and makes good use of departments other than rooms that would otherwise run slow and still represent a cost. Packaging initiatives should be creative, specific, timely and in line with the hotel's concept and market orientation.

**Online presence**

Following the trends of customers chasing the best deals and visiting individual web pages more than they did in the past, hoteliers need to ensure that their own website is the best place to find information. This relates not only to the property, but also to the area where it is located. After all, guests often search by location rather than looking for a particular hotel. In order for the hotel's website to be the preferred booking channel, the hotelier must make sure that the best available deals are on the hotel's website before they become available on third-party websites. These actions will enable the hotelier to maintain room margins whilst remaining in control of its image and facilitating the tracking of its customers' booking patterns.

**Let's go ahead with those changes once and for all!**

Yes, compared to previous years, there are proportionally more leisure customers out there than corporate ones. So why not adapt the product offering to this segment to an even greater extent? As long as these improvements fit within the overall, long-term concept of the hotel and the investment can be afforded, this is the time to do it. In any case, these changes are expected to increase the appeal to both leisure and corporate clients for years to come. Quite a few properties are taking this opportunity in these dire times; however, having a sufficient amount of capital set aside to invest in the hotel's physical structure obviously remains an essential condition.

**Keep in mind who your target audience is**

Who are you trying to attract? For example, are you aiming at conquering demand from the Middle East and Russia? Those customers tend to travel for both leisure and business purposes for extended periods, hence the need for more spacious rooms and suites when targeting these markets. Regular leisure guests, on the other hand, would be happy with the introduction of additional recreational facilities, such as spas, swimming pools, innovative fitness areas, and so forth. Such facilities are much more important if the market has strong weekday/weekend seasonality and has few leisure activities to offer over the weekend. Given the capital investment that such changes may represent, making sure that the changes are relevant both now and in the future remains key.

**What about asset management?**

Cutting costs may well be fine in the short term, but what about next year and the years that follow? Now more than ever, the role and interests of operators, owners and financing partners must be aligned to preserve the sustainability of the business. For some hotels, the detailed understanding of the current situation and how best to align operational and financial terms for improved short and medium-term results will require the assistance of an expert. Today's decisions must be strategic and, while ensuring immediate survival, should take into consideration the resources needed to recover and maintain competitiveness in the long term, because at the end of this downturn what will count most for all parties involved is the potential for the future growth of the hotel, whether this is in the context of continuing operations or a sale.

**WILL YOU HAVE ANYTHING ELSE?**

A couple more points are worth considering, as we consider they have not consistently been tackled – or not as much as they should have been.

**Avoid the temptation to cut expenses by too much!**

Marketing actions and maintenance expenses are often first in line when cost reduction strategies kick in; nonetheless, marketing is clearly needed to stimulate demand and ensure that current opportunities are seized. Under financial pressure, these initiatives should be even sharper and focused to specific targets rather than trying to reach every single traveller. A rifle is more desirable than a shotgun in this regard.

**Don't forget the people who make it all happen**

In this context of travellers searching for value, improving the service delivery is key. Payroll is the highest expense in the hospitality industry, hence a strategic lever of profitability. An efficient way of creating value for your customers, while maximising the cost structure of the hotel, is to review whether the person you have covering each position is the right one and if positions can be made more flexible, cover multiple functions and so forth. Today's environment has created an opportunity to tap into a large pool of candidates that facilitates finding the most suitable person for each vacant position.

Training is the other obvious tool to ensure that your existing employees can make the most out of their abilities, whilst keeping them motivated to continue to drive the business forward during the downturn. Effective training of your staff will support quality, customer satisfaction, productivity and therefore profitability.

**Reconsider domestic demand**

In times when international travel has declined, it may be worth dedicating a greater part of the marketing effort to the local market. Owing to its proximity, this market allows for sustainable business, and dynamic and less expensive marketing initiatives.

**CONCLUSION**

So, yes, practically every market (even solid and mature hotel markets) has been significantly hit by the magnitude of this downturn. Although the decline in trading performance is the visible tip of the iceberg, this downturn has temporarily challenged most hoteliers' understanding of their market. The past few months have raised a series of questions at all levels of a hotel's strategy from the target market to the physical product offering. These questions require strategic answers, and we expect these challenges to generate even more creative initiatives by hoteliers determined to take advantage of this switch in market dynamics. Hoteliers with initiatives that successfully account for market trends and long-term orientation are likely to be better prepared to face the challenging present and will certainly enjoy a greater edge when the upturn comes around.

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