

# Changing Times Require Changing Hotel Business Models

June 2, 2009 / By Catalin I. Cighi

The performance of the hotel industry can be either enhanced or limited by the way in which hotel business is conceptualised. In the context of evolving economic environments, the widespread belief that hotels are strictly in the business of selling rooms to guests in need of accommodation is narrow and thus limiting. If the industry does not take full advantage of the opportunities presented by economic trends, hotel assets will remain underutilised, potential markets will remain untapped, strategic alliances that should occur naturally will not materialise and significant revenues will be foregone.

This article presents two concepts that could offer opportunities for the industry if hotels are willing to take a few steps away from the traditional business models.

## The Catwalk Concept

*A model to capitalise on the opportunities presented by the proliferation of international brands*

Hotels should capitalise on a key side effect of the global proliferation of international hotel brands: *efforts aimed at building hotel brands have resulted in branding the guest population as well.* Guests loyal to a particular hotel brand share identity traits and lifestyle preferences with each other and differ from guests that prefer different brands. Therefore, branded hotels are brick and mortar containers for very distinct, well defined, self-selected captive audiences that could be accessed for marketing purposes. This argument holds true to the extent that hotel brand preference is a reliable indicator of purchasing behavior and brand preference for other products and services.

A branded hotel can take three specific steps to capitalise on this opportunity:

- First, conduct research to identify specific brands of other products and services that appeal to their guests, for example, one such brand could be a particular type of flat-screen television whose design and price tag has been targeted to a specific type of customer.
- Second, explain to the companies identified the benefits of gaining access to their guests; the hotel could build guest market profiles to support the claims that its guests fit the profile of the flat-screen television's target audience.
- Third, find inconspicuous ways to grant these companies access to the guests, for example, the hotel could agree to display the flat-screen televisions in its rooms so that the guests interact freely with the product, without ever feeling part of a marketing campaign.

Variations on this approach can be applied to any type of product or service that could be adopted by a hotel, as long as its brand target market is compatible with the hotel's guest profile. Examples include products such as design furniture, art collections and electronic gadgets or services related to wellness, health, continued learning or entertainment. The approach proposed here should not be confused with practices already employed by hotels that have successfully marketed and sold their own products to their guests by using the rooms as display space and offering hotel products via catalogues.

The value proposition to the purveyors of goods and services is twofold.

- First, they would enjoy marketing benefits derived from their ability to reach a target audience in an environment that allows this audience direct and free interaction with their products. This opportunity would be especially valuable in instances when new products are tested in the market: the costs of testing the product will be reduced and the ability to reach the desired audience enhanced.

## Summary

The performance of the hotel industry can be either enhanced or limited by the way in which hotel business is conceptualised. This article illustrates how economic trends present opportunities to redefine hotel business models and create value.

 4 Comments

## FILED UNDER CATEGORIES

Economic Trends and Cycles

Middle East

- Second, using hotel space as exhibition space or product-testing ground may also result in direct sales to the guests and indirect sales to audiences reached by word-of-mouth generated by the guests.

The value proposition to hotel guests is also twofold.

- First, they would benefit from exclusive access to tailored products or new concepts that will enhance the value derived from staying in that hotel.
- Second, they could benefit from exclusive discounts.

The value proposition to the hotels themselves is multidimensional.

- Direct benefits would be derived from additional income streams, as hotels can sell the same space many times over during the same time period (that is, the guests would pay the daily rate to gain access to the desired room, interested suppliers of goods and services would pay to gain access to the guests).
- Indirect benefits could be derived from the added prestige of associating the hotel's brand with other established brands, or from the increase in demand from guests as a result of marketing strategies that exploit the potential discounts offered to them.

In conclusion, the trend of increased proliferation of international brands may be better exploited by the adoption of a hotel business model which recognizes that branding efforts have transformed guests into assets and other companies (including hotel suppliers) into potential customers.

### **The Sanctuary Concept**

*A model to capitalise on the opportunities presented by a particular aspect of globalisation*

Hotels should capitalise on the trend of globalisation by tailoring their product to serve the rapidly growing population of professionals who relocate across the globe every few years in search of better career prospects. The demand generated by these professionals is recession proof, as it can be captured in good times, when people move to a new region, and bad times, when they move out. Moreover, for a hotel chain with international reach, this demand can be captured at both ends, in the city left behind and in the new destination.

The extended stay hotel concept taps into this market to some degree. However, to fully capitalise on this pool of demand, hotels should focus on the particular needs of this type of guest. It is true that guests relocating to a new city require direct access to hotel rooms because they need accommodation; however, these guests have a more pressing and important need for access to the institutions and facilities of an unfamiliar new city. This need highlights two opportunities, one related to a tailored product hotels could offer, the other related to the Catwalk opportunities afforded by catering to this type of guest.

Hotels could tailor their product to incorporate logistic and ambassadorial functions aimed at drastically reducing the acclimatisation period of any newcomer by making the process short and effortless. This value proposition could be particularly attractive if addressed to corporations, which would then benefit from a speedier acclimatisation of their new hires in two ways.

- Relocation costs would be cut significantly by reducing the time spent in hotel accommodation, searching for permanent accommodation and going through the necessary red tape.
- The companies would also benefit from an employee that can focus on the job immediately instead of spending a long amount of time trying to settle in their new city.

The concierge services of such a hotel would include assistance with obtaining residencies and driving licenses and help with finding a permanent residence, purchasing a car, and so forth. The rooms could be tailored for guests travelling with many possessions; the common spaces could be designed to increase networking and interaction between people that share the same potentially nerve-racking experience of relocating and starting a new life in a new home.

The Catwalk opportunities are very significant, as the relocating guests share basic needs that go beyond issues of lifestyle and consumer preferences. Virtually all of these guests will need a house and furniture and most of them need a car. Moreover, there will be a great immediacy for these needs, which should be satisfied within

weeks so that they can focus on their new job. How valuable would it be for real-estate agents, furniture distributors, car dealers and other purveyors of related goods and services to gain direct access to the guests of a hotel catering exclusively to this demand segment? The strategic alliances that could be formed to create an effortless transition period for these guests are worth investigating.

In conclusion, the growth in the number of professionals that habitually relocate in search of better career prospects may be better exploited by the adoption of a hotel business model that tailors its product and creates strategic alliances with suppliers of goods and services that can make their transition period smooth and effortless.

### **Conclusion**

The Catwalk and Sanctuary concepts have been designed to illustrate possible ways in which hotels could better capitalize on enduring trends by engaging in creative uses of previously underutilised assets: hotel spaces, hotel guests, and hotel time. The vital prerequisite for such concepts to be adopted and gain traction is to recognize that hotels are strategically positioned to provide a wider type of access (not just to rooms) to satisfy the multiple needs (not just for accommodation) of several entities (not just guests) in a particular place and during a particular moment in time.