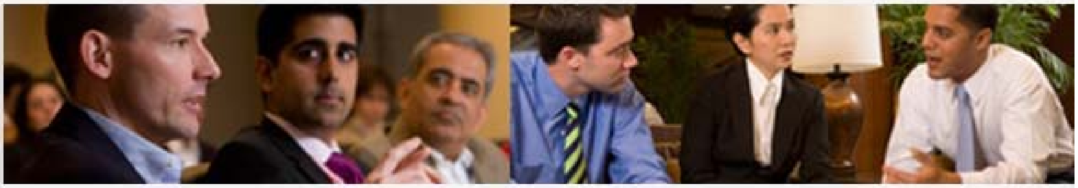
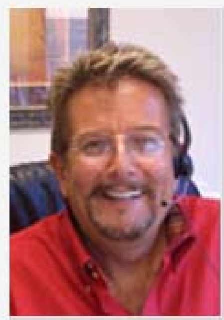
The Center for Hospitality Research

Hospitality Leadership Through Learning



Our New Economy Brings Profound Opportunity! | By Craig W. Cooley

Published: 2009-01-22 10:49:43



Recently Warren Buffett was being interviewed on a local California TV station. On the tails of his investing $3 billion in GE, he was asked why, in this poor economy, would he make such a huge investment? His confident response with a wry smile was, "I have always understood that you buy low and sell high to make money...." Pretty simple concept. With that in mind the hotel real estate industry, like the housing and commercial real estate industry is no exception to dropping real-estate values. We are in a low "valued" market, one that brings profound investor opportunities. Just like Warren Buffett said, "buy low and sell high".

But wait, I say there is more. The opportunities are TWO fold, not just one dimensional. If we can take advantage of the bargain real estate prices, AND we also take into consideration and embrace the new marketing technologies in the hotel / hospitality industry, we can more than double the gains of our efforts with tremendous value AND increased income.

First, let's look at how marketing technology has affected real estate values, even before the slumping economy by asking the question has "location, location, location" and costly real estate given way to technology and the new dynamic of internet visibility and content? And also look at how, by embracing the new technologies, we can move ahead of our "slow to respond" competitors and profoundly improve investment values and increase our revenues. Allow me to explain.

Consider this scenario. A business traveler is booking a three day trip to Los Angeles. He / she can use their in house corporate Travel Agent or, like is happening more and more often, they are allowed to book their own reservations through Travelocity, Expedia, etc., using their "business & commercial" portals and negotiated corporate rates. "price and location" are still important considerations in the process, but today there is a very important new twist to this.

Let's assume our traveler's search comes up with three similar options. Option one, is a major brand name hotel located on Century Boulevard, the major LAX access roadway. The room rate for this premium brand is $235 per night for a location 5 miles from the airport. Option two the rate is $165 per night, it is a less familiar brand name, and it is also located 5 miles from the airport at a location just off Century Blvd. Option three offers the best rate at $115 per night, it is not a familiar brand name, yet it is closer to the airport at three miles albeit ten city blocks off Century Boulevard.

With a $120 savings per night, or a $360 total savings for the duration of the stay, Mr. or Mrs. Corporate Traveler had better at least check it out.

They are cautious and look at "option three" with close scrutiny and discover that all three options have the same amenities; they all have free transportation; they all have the same star and diamond rating. What is going on? They discover to their pleasure a display of ample photographs and information of everything that "option three" hotel has to offer; items they have come to expect with the major brand name hotels. The "content" displays spotlessly clean bathrooms; all the in room features, heck there is even a photo of the toilet, the sink, deluxe showerhead, all the plumbing fixtures, the night stand, clock radio and CD/iPod player; the magnetic key door locks and deadbolts. Wow, full size towels, coffee makers, ironing boards, hair dryers, free WiFi, remote control large flat screen TVs, and easy to read and understand heat / AC controls; even a 360 degree preview of the guest room. Wow, at this location you can even pre-register "on-line" and avoid the long lines at the registration desk, this is something that the first two options do not offer!

Still unconvinced they go for third party reviews and key into their browser "Trip Advisor" to discover that they have given "option three" the highest customer service rating of all the choices. Still with disbelief they check with Expedia, Travelocity, Hotels, and Orbitz for their reviews and they also all have the same praise!

Undaunted and still determined to find an excuse to utilize the familiar big-name brand, they ask themselves "what about a rewards program?". Lo and behold, option three also has a rewards program linked with major credit cards, industry independent rewards programs, ClubHotel (www.clubhotel.com), and the travel industry resellers, such as Expedia, Travelocity, Orbitz, etc.; rewards with simple and easy redemption procedures.

Suddenly they are delighted, they have a new home! But they're probably wondering what's going on. Why would the least expensive also be the best value and also be the closest to the airport? How did "option three" do it? How can they offer the best rate and by far the best value?

"Option Three" has discovered the importance of the level playing field that our relatively new electronic medium now provides. They have discovered that by aggressively utilizing this technology to their advantage, ahead of their competitors, that they have become formidable competition for the larger branded hotels. Specifically they have discovered two very important aspects that this new technology provides and created a model to capitalize on them:

1. Content & Visibility: These are now the most important metrics in the selling game defined by our cyber centric culture. Simply put, the more "product" on the shelf at the greatest number of attractive locations, creates the greatest visibility; and with an abundance of content that is attractive, detailed and easy to navigate, more the likely it is the consumer will make a purchase.

2. Customer Service: They have also discovered, perhaps most importantly, that this new cyber centric technology can assist them in dramatically improving their level of customer service. And, that by using this technology to better understand the guest's needs and respond timely to their suggestions and customer service concerns, they can improve their product and offerings in the marketplace. Does this mean that old fashioned hospitality has come to an end? Absolutely not, it simply means that the meaning of hospitality has taken on a new dimension that allows more customer conveniences, more customer interaction and a more tailor-made and satisfying hospitality experience.

What a great combination, excellent visibility, content and customer service. That explains part of the "what is the deal?" question that J. Q. Traveler had asked, but what about that rate?

"Option Three" has discovered that with GPS, MapQuest and a dynamic website that assists the traveler in the finding their property, that it is no longer of paramount importance that the property be located on the most expensive piece of real-estate; with all the extra special assessments and higher property taxes; that the property only needs to be near a major attraction, as a bird flies; something that SouthWest Airlines figured out a long time ago!

But what about brand name recognition?

CostCo has also long ago discovered that brand loyalty is not what is used to be, that price and quality, when they can easily be compared, will often "out value" brand loyalty. Consider "Kirkland" as a brand, it has become a household name worldwide without a multimillion dollar "Wall Street" product marketing program.

The independent hotelier has realized that they can offer the same product often without expensive marketing, transaction fees, commissions, and value added surcharges that are often part of the standard relationship with franchisees, GDS, Travel Agents and 3rd Party Reselling Channels.

Simply put, all the preceding combined means that there are less operating expenses, likely less real-estate debt to service, and very likely greater sales volume that will allow "Option Three" to offer more attractive room rates. So for now, "Content and Visibility" is indeed pushing aside "Location, Location, Location". How far will it push it? Is it likely that real estate values be affected? How will it affect the name brands and franchisors?

Perhaps the best response is not to wait or to try to second guess just how everything will "play out" but to look for the opportunities that this new phenomenon may present and aggressively respond.

Specifically, to respond by developing a "new" property investment profile / model designed to take advantage of the low real estate values and financially rewarding opportunity that this technology has created. I have outlined four basic "model" categories along with their respective criteria.

1. LEVEL OF SERVICE / QUALITY OF FACILITY: When you consider that a single name brand hotel at a cost of $125M could also be an eight property limited service hotel group that could easily outperform the former in our new marketplace, I am most attracted to limited service properties near acceptable food and beverage dining facilities. They should be three or four story buildings with interior corridors in colder weather locations, and exterior corridors milder locations; small meeting space; courtyard pool area; with an attractive lobby and commercial areas; with a minimum of 100 guest rooms, preferably 150+. And lastly, certainly a staple of "real estate" procurement is due diligence; finding a "diamond in the rough", with quality construction.

2. LOCATION: Certainly location is important, but roadside visibility has become less of a consideration than "internet content and visibility" has become as of lately. The property needs to be adjacent to or near a major attraction; airport, college, theme park, or resort area. No longer is it a requirement to be on a major thoroughfare or visible from a major roadway for financial success; is now much less an important item, and typically this type of property will be less expensive to purchase. A property an extra 3 miles away from the major attraction at half the real estate cost would be an attractive candidate.

3. BUSINESS INTELLIGENCE: Certainly, an operational requirement to keep the expenses at a minimum and allow the management to keep on top of the demand and inventories offered in an intelligent and financial rewarding manner is a dynamic PMS. Dynamic in that it has its own integrated booking engine / CRS; 3rd party channel connectivity, revenue yielding applications, revenue / market source information; and certainly a powerful "business intelligence" application for harvesting valuable real time information. Information that facilitates intelligent and timely business decisions; ones that allow us to make the most of all our revenue opportunities.

4. UNDER PERFORMER: Seek an independent property that has not fully embraced our new technologies. With the recent US Government's deregulation of the GDS, the profound internet explosion, "Travel 2.0", "Social Media", the list goes on and on with a quickly evolving dynamic; there exists tremendous opportunity. Specifically, look for a property with poor internet / travel agent visibility, one that is 3 to 5 short years behind in their internet and technology marketing. It is easy to check this out with internet access. Make it a requirement that you need to review their production, or "revenue sources". If they do not have any better than 20% of their revenue coming from the internet, then they are profoundly underperforming, and ultimately undervalued in the market place. In popular resort locations the internet production can be as high as 85%, that is a lot more revenue!

Perhaps most importantly, look for the property that is poorly branded, or branded inappropriately with a mismatched franchise.

Certainly "re-branding" and new product / market introduction that embraces the new technologies would be in order; perhaps with a 3 to 5 year exit plan! Suddenly that second home retreat on a private island (www.PrivateIslandsOnline.com) in the Bahamas or Caribbean appears to be more of a reality!

Craig W Cooley

About Craig Cooley....

Craig Cooley, with 30 years in the hospitality industry is a recognized authority in the field of hospitality marketing. His career path started in the corporate audit department of a major developer and quickly he advanced through operations and property management on to corporate operations management. From operations he identified intelligent marketing as the core operative dynamic that brings success to any business / market or product. With this perspective he transitioned to Corporate Director of Sales and Marketing for various major California-based hotel companies.

He has cut a path as a clear speaking spokesperson for hotel industry professionals addressing their concerns and cultural challenges as companies negotiate the myriad of hazards and opportunities that have become an everyday component of marketing in the era of e-commerce. He has become a well-published authority on these issues, including the nascent discipline of yield management. His numerous articles have been widely published, with such titles / topics as "Yes, Hotels can Make Money and Sustain Growth", "Connectivity, Connectivity, Connectivity", "Location, Location, Location" and "Should I Fire my Franchisor?".