CHAPTER 2

The Modern Hotel Industry

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Hotels originally served as the storage arm of transportation. They were located along the travelers’ route, waiting there for potential guests to tire and seek shelter. Today’s guests use a wide range of transport to find an array of routes, a variety of destinations, and a host of reasons to travel. Only by recreating itself over and over again has the lodging industry been able to meet these changing challenges. New patterns have resulted and this chapter examines four of them: product, market, ownership, and management.

NEW PRODUCT PATERNs

The four patterns are actually interlaced. Change in one invariably impacts another. New methods of financing may create new management patterns, for example. Or new products emerge when driven by new markets. One size no longer fits all. Recognizing this, lodging executives began brand stretching, later called brand segmentation,1 as one means of offsetting a dip in the demand curve.

Segmentation, Brand and Image

Segmentation. To counter falling occupancies during the 1990s, upscale hotels moved vertically downward (stretched their brands) into midscale operations. Marriott introduced Fairfield Inns, for example. Midscale chains countered, moving both upward and downward. Choice Hotels, for example, stepped up with its Clarion brand and down with its Sleep Inn (see Exhibit 2-1). Now, Choice has begun re-inventing itself again. It is enhancing its Quality brand with property improvements and an inclusive breakfast. It is differentiating its Sleep Inn from its Comfort Inn. And it is increasing the rates and services of its Comfort Suites. Adding to the richness—some think confusion—Choice has added Cambria Suites, to its group, designating it as a “lifestyle chain.”

Other chains made different moves. Holiday Inn Hotels launched a new brand, Crown Plaza. That altered its identity. No longer just a roadside, motor-inn company, it now competes with the urban likes of Starwood’s Sheraton and Hilton’s Doubletree brands. Hyatt, an urban chain strong on conventions and group business, recently acquired AmeriSuites, a leisure-oriented chain. Other shifts brought resort companies into commercial businesses, and vice versa. Segmentation spilled over from product differentiation into other aspects of the industry (see Exhibit 2-2).

1The lodging industry uses segmentation to mean different products, hotel types. The word has an opposite meaning in general marketing terminology. There it means developing a product for just one market segment.
Brand Names

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Low End</th>
<th>Midscale</th>
<th>Upscale</th>
<th>Suites</th>
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<tbody>
<tr>
<td>Choice Hotels International</td>
<td>Comfort Inn</td>
<td>Quality</td>
<td>Clarion</td>
<td>Cambria Suites</td>
</tr>
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<td></td>
<td>Econo Lodge</td>
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<td>Comfort Suites</td>
</tr>
<tr>
<td></td>
<td>Rodeway Inn</td>
<td></td>
<td></td>
<td>MainStay Suites</td>
</tr>
<tr>
<td></td>
<td>Sleep Inn</td>
<td></td>
<td></td>
<td>Suburban^b</td>
</tr>
<tr>
<td>Marriott International^a</td>
<td>Fairfield Inn</td>
<td>Courtyard</td>
<td>JW Marriott</td>
<td>ExecuStay</td>
</tr>
<tr>
<td></td>
<td>Residence Inn</td>
<td></td>
<td>Marriott Hotels</td>
<td>Marriott Suites</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ramada International</td>
<td>Renaissance Suites</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Renaissance</td>
<td>SpringHill Suites</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ritz-Carlton</td>
<td>TownePlace Suites</td>
</tr>
<tr>
<td>InterContinental^c</td>
<td>Holiday Inn Express</td>
<td>Holiday Inn Indigo</td>
<td>Crowne Plaza InterContinental</td>
<td>Candlewood Suites Staybridge Suites</td>
</tr>
</tbody>
</table>

^a Marriott’s list is not complete.

^b Suburban is advertised as an extended-stay hotel; its complete name is Suburban Extended-Stay Hotels.

^c InterContinental has gone through several name changes: From Holiday Inn to InterContinental to Bass Hotels to Six Continents and back to InterContinental.

Note: Read horizontally, not vertically. Brand comparisons are valid only within the same chain. They are not valid between companies. Choice’s mid-scale brand, for example, is not equated to Marriott’s mid-scale brand.

Exhibit 2-1 Hotel companies stretch up and away trying to establish new brands. The result is more names, more buzz, and more confusion. Adding to the muddle, chains use different, unrelated names for their frequent guest programs. Exhibits 2-14 and 2-15 pile on still more names. (Five brands have been added and two have been deleted from this exhibit in three years.)

Brand. Segmentation has created issues as well as solutions. Identification of new products can be muddled by too many new designs, new logos, and new promotions. It took time for hoteliers to realize that collecting a group of like hotels—or even worse, unlike hotels—under one name did not automatically create a brand.

Customer recognition is what defines a brand: recognition of the name and the logo. To that end, hotel chains have poured advertising dollars into the creation of new brands. But how many guests know that Renaissance Hotels are actually Marriotts (see Exhibit 2-1), or that Le Méridien and Westin are both children of Starwood? Like Marriott and Starwood, most large chains have several brands. Some of them have been created, others purchased. There are advantages to multiple brands if the parent company can sell the differences and values of each (Sheraton’s Four Points versus W’s boutique brands, for example) and yet retain the umbrella of the still broader brand (that’s the Starwood example again).^2

^2Starwood recently announced that it will cross-market its brands with nonhotel brands. Neither the mechanics of the arrangement nor the results are evident at the time of publication.
The Hotel Industry

A Segmented Industry

<table>
<thead>
<tr>
<th>Segmented by Activity</th>
<th>Segmented by Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casino hotel</td>
<td>American plan</td>
</tr>
<tr>
<td>Convention hotel</td>
<td>Continental plan</td>
</tr>
<tr>
<td>Dude ranch</td>
<td>European plan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segmented by Financing</th>
<th>Segmented by Price (ADR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public corporation</td>
<td>Deluxe</td>
</tr>
<tr>
<td>Private individual</td>
<td>Midrange</td>
</tr>
<tr>
<td>REIT</td>
<td>Budget</td>
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<table>
<thead>
<tr>
<th>Segmented by Location</th>
<th>Segmented by Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>Five-star</td>
</tr>
<tr>
<td>Highway</td>
<td>Four-star</td>
</tr>
<tr>
<td>Seaside</td>
<td>Three-star</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Segmented by Management</th>
<th>Segmented by Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain</td>
<td>Full service</td>
</tr>
<tr>
<td>Management company</td>
<td>Moderate service</td>
</tr>
<tr>
<td>Self-managed</td>
<td>Self-service</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segmented by Markets</th>
<th>Segmented by Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>High rise</td>
</tr>
<tr>
<td>Groups</td>
<td>Low rise</td>
</tr>
<tr>
<td>Leisure</td>
<td>Outside corridor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segmented Miscellaneous</th>
<th>Segmented by Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collar</td>
<td>Commercial</td>
</tr>
<tr>
<td>Hostel</td>
<td>Residential</td>
</tr>
<tr>
<td>Mixed-use</td>
<td>Resort</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segmented by Ownership</th>
<th>Segmented by Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain</td>
<td>Bed and breakfast</td>
</tr>
<tr>
<td>Condominium</td>
<td>Extended stay</td>
</tr>
<tr>
<td>Mom-and-pop</td>
<td>Health spa</td>
</tr>
</tbody>
</table>

*See also Exhibit 1-8*

**Exhibit 2-2** The lodging industry can be divided and subdivided into many segments. None are self-exclusive. Both individual hotels and entire hotel chains fall under many categories simultaneously. For example, a commercial, three-star property near an airport can be REIT-owned, chain-managed, franchised-flagged operation.

Establishing a brand is more difficult when the chain is foreign based. Not only is it unfamiliar to the traveler, it may use a foreign-sounding name. Recent North American entries include Sol Meliá (Spanish) and Taj Hotels (Indian). (See Exhibit 2-13.)

**Brand Equity.** Brand equity is the inherent value that the shopper's recognition gives to the brand. There is equity (value) in the brand only if that recognition carries a positive image. There is no brand equity if guests know the brand but will not stay. Travelodge is a good example of strong brand recognition with weak brand equity. At least that's so in the United States, where it is a Wyndham company. Non-Wyndham Travelodge has both
recognition and equity overseas, particularly in Australia, with its mid-range rating of three stars on a five-star system.

Equity develops when hoteliers identify promising segments of the industry, promote the brand associated with that segment, and deliver a product that appeals to the buyer. Basic to developing brand equity from mere brand recognition are four criteria: instant identification (the Marriott name comes immediately to mind); broad distribution (Holiday Inn Hotels is the best example); consistent quality (Hampton Inns has achieved that reputation), and an assured level of service (Four Seasons tops the list).

Branding is about consistency far more than it is about identification with its parent. Branding is about quality far more often than it is about advertising. Branding is about the chain’s personality far more often than it is about location. Branding is about individualizing the experience more than it is about cluttering the landscape.

Price—in the lodging industry that’s room rate—is the offset to brand equity. With so many choices, the guest’s decision often depends on nothing more than the quoted rate. When hotel rooms are viewed as a product rather than as a service, they are characterized as a commodity, much like wheat or oil. In the extreme, guests see every hotel room like every other, and brand managers fight an uphill battle for identity. Web sites such as Priceline.com focus the buyer’s attention on price, not brand.

New Product Segments

Some efforts at segmentation merely add new faces to tired properties whose logos no longer have equity. More dramatic efforts put entirely new products onto the market. These materialize when hoteliers recognize the need and match their innovations to contemporary demands. Among them are economy hotels, all-suite hotels, casino/hotels, spas, and conference centers. None of which quite meet the traditional hotel definitions of Chapter 1. Let’s check in to each.

Economy (Budget, or Limited-Service) Hotels. Budget hotels evolved from the roadside motor courts of the 1930s (see Exhibit 1–7). Then came Holiday Inn Hotels, Kemmon Wilson’s chain of clean, no-frills accommodations. Except, existing motor-court operators saw the chain very differently. They saw it as amenity creep! Every hotel class fights the battle of amenity creep, but it seems to impact most on the economy segment.

Amenities and Amenity Creep. The history of the industry’s ever-improving levels of service is the story of amenity creep. An amenity is a special extra used to distinguish the property from its competitors. It’s used in part to establish the brand and to give it equity. After a time, guests expect the amenity. No longer do they view the product or service as an “extra.” It is now offered throughout the industry because competitors have first met the challenge and then launched their own, new amenity. Rather than a competitive advantage, the amenity is now a fixed cost.

So little by little, small hotel rooms grew larger. Direct-dial telephones replaced the lobby booth to be replaced in turn by free, wireless connectivity. Free television replaced coin-operated sets, to be replaced in turn by multiple, flat screens. Expensive, but rarely used swimming pools became the norm. Air-conditioners replaced electric fans. Inclusive breakfasts replaced in-room coffee makers. Two wash basins holding a variety of soaps, combs and lotions replaced the disposable shower cap and the free shoe shine cloth. At one point, the cost of toiletry amenities exceeded $10 per room per night! Exhibit 2–3 contrasts the special amenities of yesteryear to the new ones now in place.
### Signs of Amenity Creep

<table>
<thead>
<tr>
<th>One-Time Amenities</th>
<th>Today's Amenities&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bathrobe</td>
<td>Sleep CD</td>
</tr>
<tr>
<td>Bottle opener</td>
<td>Flat, plasma screen TV</td>
</tr>
<tr>
<td>Chocolate mint on the pillow</td>
<td>Luxury bedding&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Direct-dial telephone</td>
<td>Wireless Internet</td>
</tr>
<tr>
<td>Double sink in the bathroom</td>
<td>Global positioning unit</td>
</tr>
<tr>
<td>In-room coffee maker</td>
<td>All-inclusive breakfast</td>
</tr>
<tr>
<td>Iron and ironing board</td>
<td>Ergonomic furniture</td>
</tr>
<tr>
<td>Plastic shower cap</td>
<td>Check-in kiosk</td>
</tr>
<tr>
<td>Radio alarm clock</td>
<td>Satellite radio</td>
</tr>
<tr>
<td>Shoeshine cloth</td>
<td>Perfumed guest room spray</td>
</tr>
<tr>
<td>Soap and shampoo</td>
<td>Overnight pets (cats, dogs, fish)</td>
</tr>
<tr>
<td>Swimming Pool</td>
<td>Spa</td>
</tr>
</tbody>
</table>

<sup>a</sup> Estimates suggest that the industry spent a total of $10 billion on upgrades and renovations in the two-year period 2006-2007.

<sup>b</sup> See also Chapter 7.

Exhibit 2-3 Amenities are limited only by the hotelier’s imagination. Guests at San Francisco–based Kimpton Hotels—not quite a boutique chain but not a mass-marketed chain either—are offered chocolate drinks, Yoo-Hoos, and Twinkies. The company’s Topaz Hotel in Washington, D.C., gives horoscopes.

Each upgrade pushed room rates higher. Hotel companies that started in the economy segment (Holiday Inn, Ramada) found themselves in the midrange. Undoubtedly, personal egos played a role in upgrading the chains. So did the introduction of franchising. Franchise fees are based on room revenues. As amenity creep pushes up room revenues, franchise fees to the parent company also increase.

How Budgets Compete. As room rates inch upward, new chains fill the void at the lower end. Some date the start of this rotation from 1964, when Motel 6 entered the market. By 1999, Motel 6—now owned by Accor—had interior corridors, improved heating and air-conditioning, and upgraded baths. Amenity creep had set in. New budget entries forego some amenities, but many, such as remote television, acceptance of credit cards—even breakfasts and frequent-stay programs are now seen as basic services. Today’s budgets are competing with fewer bathroom amenities, better values in construction and attention to operations and management.

Newer economy chains employ newer techniques. Rooms smaller than the standard 300 to 325 square feet are being offered. (Microtel rooms are 178 square feet.) Chains are selecting less costly land, and they are building on smaller sites, 1.5 acres or less for 100 rooms. Nonbasic amenities such as pools, lobbies, meeting space, and restaurants have been eliminated once again. Providing free continental breakfasts is actually less costly than operating a restaurant that loses money. Besides, budget hotels/motels are almost always located near outlets of national restaurant chains, with one restaurant often serving several competitors.
The latest round of budgets has focused on design and construction. Economy is coming from standardized architectural plans and from using just a few builders. New structures have low ceilings and improved insulation. Better construction has reduced subsequent operating costs; the offset has been amenity creep. Interior corridors, now required for better guest security, have replaced the exterior access of the traditional roadside property and added substantially to construction costs.

Some budgets employ fewer than 20 employees per 100 rooms, almost 60% less than the traditional figures suggested in Chapter 1. Eliminating the dining room is just one technique for reducing labor. Hanging guest room furniture and providing a shower but not a tub increase the productivity of the housekeeping department. Automating telephone calls and assigning extra duties (including laundry operations) to the night clerk improve productivity on that side of the house.

It takes about 250 properties to ensure brand identification. To achieve market identity quickly, some chains acquired and then franchised old mom-and-pop operations at fire-sale prices. Days Inns was chief among them (see Exhibit 2-4).

Hard Budgets. The economy group of hotels has performed very well during both the upswings and the down cycles. As amenity creep has forced some budgets into higher rate classes, a still more limited service hotel has emerged. Among the euphemisms for these inexpensive accommodations are: economy, budget, limited-service and low-end. Adding confusion to the terminology are upscale budgets—what an oxymoronic term—(La Quinta, for example), intermediate budgets (Red Roof Inns) and low-end budgets (Super 8).

Hard budgets are found worldwide. They are favored at airports and at the hundreds of truck stops that dot the interstate roads. The airports at both Los Angeles and Honolulu offer budget rooms for rest and showers between connections. They measure 75 square feet, less than 1/3 a normal sized hotel room. Tokyo’s airport offering is smaller still. Its “capsule rooms,” something like railroad sleeping berths, measure

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**Among the Budget Chains Are . . .**

<table>
<thead>
<tr>
<th>Name</th>
<th>Parent Company</th>
<th>Approximate Number of Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comfort Inn</td>
<td>Choice</td>
<td>120,000</td>
</tr>
<tr>
<td>Days Inn</td>
<td>Wyndham</td>
<td>150,000</td>
</tr>
<tr>
<td>Econo Lodge</td>
<td>Choice</td>
<td>50,000</td>
</tr>
<tr>
<td>Howard Johnson</td>
<td>Wyndham</td>
<td>15,000</td>
</tr>
<tr>
<td>Knights Inn</td>
<td>Wyndham</td>
<td>15,000</td>
</tr>
<tr>
<td>Motel 6</td>
<td>Accor a</td>
<td>100,000</td>
</tr>
<tr>
<td>Red Roof Inn</td>
<td>Accor</td>
<td>40,000</td>
</tr>
<tr>
<td>Sleep Inn</td>
<td>Choice</td>
<td>25,000</td>
</tr>
<tr>
<td>Super 8</td>
<td>Wyndham</td>
<td>125,000</td>
</tr>
<tr>
<td>Travelodge</td>
<td>Wyndham</td>
<td>40,000</td>
</tr>
</tbody>
</table>

*a Accor, a French company, has some 18 different brands, but has recently divested its Club Med.

**Exhibit 2-4** Budget hotels are controlled by a few large chains. These ten account for nearly 700,000 rooms. The typical budget hotel is less than 100 rooms in size, located on the highway, and flying the franchise flag of one of these companies.
5' × 5'. London is working on the “Yotel,” about the size of an airplane's first-class cabin. It will be some 100 square feet (9' × 12'). Clean bathhouses have served as the hard-budget accommodations of China's growing middle class. In preparation for the 2008 Olympics, Beijing opened the field to Wyndham, formerly Cendant, and other hard-budget operators. Hard budgets are growing quickly in Europe. France has the largest number because its costly social services are paid for by high payroll taxes. There is a real need to minimize labor, something that hard budgets do well.

**Hostels** are a special case of hard budgets. They have been favored by the young, the single, and the not-too-discriminating traveler. Dorm sleeping and a complete lack of privacy has discouraged a broader audience. But amenity creep is noticeable here too. Smaller rooms are now available for families and traveling friends. Security of personal items, better beds, and even *en suite* baths are attracting new clientele. Hostelling International, which represents some 4,000 hostels, has been working to upgrade facilities and assure stricter standards, even sending out inspectors.

**All-Suite Hotels.** Each segment of the industry offers something unique. Boutique hotels emphasize soft attributes (fashion and spas) over hard values (room size and meeting space). Budget hotels offer rooms at reduced prices. The all-suite appeal is two rooms for the price of one, which is a shift from the original appeal to extended-stay guests. All-suite investors have their own draw: higher weekend occupancy and sustaining profits.

The extended-stay concept, Homotel, was conceived in Phoenix in 1969. It matured during the Texas oil boom, where temporary but long-term housing was needed. The idea was innovative—some say the best in a generation—but it borrowed from the traditional, the residential hotel.

The all-suite idea flourished after Holiday Inn acquired Homotel. With Residence Inns and Embassy Suites (Homotel renamed), Holiday Inn Hotels became the largest all-suite chain. Embassy was spun off to Promus when the Holiday Corporation was broken up (1990). In turn, Hilton bought Promus and with it Embassy Suites (1999). Hilton now has Embassy Suites, Homewood Suites, and Hampton Suites.

Holiday Inn’s other chain, Residence Inns, was sold to Marriott in 1987. Now Marriott has five, including ExecuStay, SpringHill Suites, and TownePlace Suites (see Exhibit 2-1).

Separate living–sleeping accommodations (see Chapter 3, Exhibit 3-17) are attractive to personnel conducting interviews, to women executives, and to others who require private space outside the intimacy of a bedroom. That’s why the market shifted away from just extended-stay use. The living space contains a sofa bed and sometimes a second bath. That opened still another market: traveling families seeking economical accommodations.

Despite all-suites’ tilt toward transient accommodations, two subdivisions, extended stay and corporate housing, continue to market the segment’s original appeal.

**Extended Stay.** Extended stay (5 nights or more—18 nights is the average stay) was the original concept of the all-suite hotel, and corporate users were the target market. The annual expenditure of extended-stay guests is four to five times that of transient guests, who stay but a night or two. Better to sell four weeks to one guest than 28 room nights to, say, 20 guests. Consequently, extended-stay hotels have higher occupancies than the norm and lower ADRs. Higher occupancy requires a good revenue management system (see Chapter 5), but problems are minimized by reduced room turnover and by the ability to supplement with transient guests.

Long-term business travelers are not the only market: Families that are relocating and military personnel awaiting new assignments are two other sources. So too are company training sessions and employees on long-term, but temporary, assignments. Among them
are movie crews, federal agents, FEMA employees, and utility workers. Leisure travelers fill in the vacancies and broaden the market still further.

The kitchenette is to the all-suite what the swimming pool is to the motor hotel. Everyone looks for the amenity, but few use it. Having restaurants nearby is therefore a plus. Some extended-stay chains jump from minimum service to closing the desk and locking the door overnight. That will prove troublesome in law suits. Hotels must be staffed around the clock to have the legal benefits of innkeeping.

Corporate Housing. A large business sends a variety of staffers from many departments to one city. It makes sense for the company to take a long-term lease on housing accommodations, provided hotel services are included. A new type of facility, corporate housing, is being explored. Such buildings are exempt from local room taxes and are permitted in areas not zoned for hotels. Using one dedicated site makes more sense than scattering managers around a large city. Marriott’s Executive Apartments, a division of its all-suite Execustay chain, is the most apparent participant in this business segment.

Mixed-Use Projects and Other Hotel Segments

The dynamic nature of the hotel business—out with the old; in with the new—brings innovation and excitement to the industry. One curious example: Elderhostel programs have married hotels with universities. At the other end of the age spectrum are children’s camps within hotels. (They even give frequent-stay points to the kids.) Mixed-use, the current buzz word in real estate, takes innovation to the next step.

Mixed-Use Projects. Every developer is talking and investing in mixed-use ventures. Apartments, hotels, resorts, condominiums, shopping marts, and business towers are being merged into one development, the mixed-use concept. Resort communities embrace the idea, bringing tennis, golf, skiing, and swimming to the mix. Combining residential and business with retailing, recreation, and entertainment, usually by means of high-rise buildings, is a modern version of the small city that everyone aspires to.

Mixed-use communities are feasible because of demographic shifts in society. Retirees find them to be ideal. Urban centers accommodate the working-from-home employee. Marrying vacation environments and residential facilities seems the best of all worlds. It certainly fits for space-challenged cities. Hotels, in the broadest definition of the word, are at the core of the development.

Mixed-use in the urban landscape is illustrated by Marriott’s plan to “stack” two hotels into one building as part of Los Angeles’ mixed-use broadcast center that includes theaters, studios, and retail outlets. Across the nation, the Rockefeller Center Hotel occupies one part of a larger building within the business center of Rockefeller Plaza.

Mixed use in the resort corridor is best illustrated by MGM Grand’s $7 billion (!) CityCenter development of hotels, retailing, and casinos in the center of the Las Vegas Strip.

Casino/Hotels. Not every mixed-use project has a hotel casino, but the possibility has increased many fold. Casinos, which once were limited to Nevada and then to Atlantic City, have spread across the nation and the world. Tax-starved states have licensed them and Indian tribes have built them. The jobs and the dollars they create have all but silenced critics.

3France and England are Europe’s biggest gaming countries. Construction of mixed-use projects in Macau and interest from Singapore and mainland China signal Asia’s intent to become a major casino destination. (Many countries, Korea and the Caribbean Islands among them, deny access to local citizens, reserving the casinos for tourist dollars.)
Casinos are almost never free standing. They are hotel/casinos; more accurately resort casinos, best typified by the Atlantis Casino & Resort in the Bahamas. Casino/resorts show every sign of becoming lodging’s dominant segment. They’re certainly the largest hotels around (see Exhibit 1-6), and their cash flow is immense. It needs to be, when the break-even point that Chapter 1 discussed can exceed $1 million per day!

Casino/hotels have a different focus from traditional hotels. Gaming revenue (called win), not room sales, is the major income producer. Therefore, having rooms occupied (having potential gamblers in the house) is more important than ADR or even RevPar. Similarly, two guests in the same room double the casino “action.” Obviously then, single and double rates are kept the same. Some of the truisms that one quotes for casinos are changing. Pushed by very heavy demand casino occupancy has risen dramatically. So some casino/hotels have reported higher revenues from traditional hotel sales and other mixed-use income than from casino win. And that’s a first.

Conference Centers. As a separate category, conference centers (CCs) first appeared in the 1960s. What began in renovated mansions morphed into highly specialized facilities designed for meetings and conferences. CCs provide specialized space, audiovisual equipment, interactive seminar rooms, theaters, closed-circuit television, and simultaneous translation capabilities. They supply whatever is needed to make the meeting/conference successful (see Exhibit 2-5).

Unlike convention hotels, conference centers take no transient guests. Similarly, food service is not open to the public. The centers serve a special niche in the meeting market, so they number in the hundreds; as Chapter 1 points out, hotels number in the tens of thousands. Conference centers need not be separate and distinct from hotels, but they must have separate and permanent space. To secure membership in the International Association of Conference Centers, no less than 60% of the facility must be dedicated. Hotel space is not dedicated. Its function changes to accommodate meetings, banquets, trade shows, weddings, dances and more (see Exhibit 2-6).

Double occupancy is high in CCs. Even senior managers are doubled up. Two to a room encourages familiarity, one goal of conference planners. Upper and lower managers get to know one another.

Rates at conference centers are bundled. Everything—guest rooms, meeting rooms, food, drinks, and equipment—is included in the rate quote, called a corporate meeting package (CMP). The CMP is a modern version of the American, all-inclusive plan. But then the conference center itself is a modern marriage of the convention hotel and the traditional resort. The combination houses a five-day workweek in the center (the convention hotel), followed by a two-day weekend in the resort portion. Much like convention hotels, weekend occupancy is low. The business model is static; it certainly isn’t an expanding market. Nothing like the growth in spas.

Spas. Spas offer curative waters. The term originated in the city of Spa, Belgium, where the ancient Romans “took the waters.” The resorts of 19th century New England developed around mineral springs, so the resorts themselves became known as spas. Today’s spas are far different from their famous namesakes at Saratoga Springs in New York, White Sulphur Springs in West Virginia, and the Broadmoor in Colorado Springs. Originally sought for their restorative properties, these resorts became the playgrounds of the rich and socially well placed. Horse racing, casinos, and other entertainment replaced the waters as the main attraction.\footnote{The curved top of the Saratoga trunk, named for its appearance at Saratoga Springs, was designed around the elaborate wardrobe of ruffles, bustles, parasols and petticoats that fashionable ladies brought to the resort.}
Conference centers blend business and high-tech facilities in dedicated meeting space with pleasant, resort-like surroundings. Hotels that compete for this market segment do so with multiple-use space (see Exhibit 2–6). Courtesy of Barton Creek Resort, Austin, Texas.
Early spa-goers sought better health in the healing qualities of the waters. That pretty well determined the spa’s location. Modern spas are everywhere because water is not the attraction; health is. Health remains the essence of the spa experience. Attendance evokes an almost religious fervor of health, exercise, massage, and diet.

Spa installations continue to grow because they are profitable. Unlike unused swimming pools and kitchenettes, guests take to the spas and pay handsomely to do so! Travelers and tourists expect to find them even in modest properties under one of three identities. There are spa destinations, “stay spas,” which are spas with a resort component. There are “day spas,” which may or may not have a lodging component. And in between are resorts with all amenities, spas among them (see Exhibit 2–7).

Stress reduction—there should be no competition—is a mantra of the spa-goer and the spa-provider. As such it fits perfectly with the industry’s latest catchphrase, “lifestyle hotels.” Choice Hotel’s Cambria Suites, mentioned earlier in the chapter, latched on to that lifestyle terminology. So, too, has aloft hotels, a brand recently spun off from Starwood’s boutique division, W Hotels. It’s no coincidence that Bliss, which operates spas for W Hotels, designed aloft’s baths and showers. So once again, the spa has changed course. Now it’s lifestyle. Beauty care (see Exhibit 2–8) for men as well as women is part of that current theme.

**Fitness Centers.** Rarely do spa managers bring the noisy energy of the fitness center into the operation. Fitness centers, euphemistically called health clubs, appeal to the work-out patron. Such facilities preceded the introduction of the spa because they are less costly to launch and to manage. Indeed, when there are a few pieces of equipment in an old storeroom, they are not being managed at all. The other extreme is a cadre of accredited trainers and expensive equipment. Since the users are usually businesspersons on the road, staff must be scheduled at the user’s convenience: mornings and evening, before and after work. These are also the times when guests are most frustrated, waiting for a turn on the busy equipment. It is more exasperating when nonguest/outsiders (local resident-memberships which increase the center’s revenues) compete for their turn. Portable equipment brought to the room is an expensive alternative, an amenity offered by some upscale properties.

Minimum equipment includes stationary bikes, treadmills, and stair-climbing machines. Users like to see familiar brands that operate without a learning curve. Management must be diligent about maintenance. It must assign periodic inspections and repairs to the gym.
Spas, which are rated by the *Mobil Travel Guide*, are profitable amenities. The International Spa Association lists seven spa types: club; cruise-ship; day; destination; medical; mineral springs; and the resort/hotel type illustrated here. This spa at the Hotel Hershey features a Whipped Cocoa Bath. *Courteous of Hotel Hershey, Hershey, Pennsylvania.*

broken and dirty equipment undermine the image. They might even undermine insurance coverage, an absolute necessity for both spas and fitness centers.

**NEW MARKET PATTERNS**

Today's consumers have a rich selection of choice from bottled water, to investment options, to lodging accommodations. The old conundrum Which came first, the chicken or the egg? has application here. Have all the new products just discussed been a response to market demand? Or have these product changes caused the demand? Conjecture aside, the challenge lies in enticing the customer in.

**Marketing to the Individual Guest**

By law, hotels must accept all who come in good condition. In practice, hotels cater to particular market segments (niches). What appeals to one type of guest may be of indifference to another. So the guest's very presence tells us as much about the hotel as about the guest.
SPA Services

<table>
<thead>
<tr>
<th>Acupressure</th>
<th>Aromatherapy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ayurveda(^a)</td>
<td>Bikini wax</td>
</tr>
<tr>
<td>Body treatment</td>
<td>Body wax</td>
</tr>
<tr>
<td>Brow wax</td>
<td>Exfoliation</td>
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<td>Facial</td>
<td>Fango(^b)</td>
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<td>Gommage(^c)</td>
<td>Herbal Treatment</td>
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<td>Hydrotherapy</td>
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<td>Loofa scrub</td>
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<td>Mud bath</td>
<td>Nail care</td>
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<tr>
<td>Oxygen treatment</td>
<td>Pedicure</td>
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<tr>
<td>Shiatsu(^d)</td>
<td>Wraps</td>
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\(^a\) Folk medicine from India.  
\(^b\) Upgraded mud bath.  
\(^c\) Rehydration massage.  
\(^d\) Japanese acupuncture.

Exhibit 2-8  Spa services are highly specialized so hotels often lease the space rather than operate it. Services are very personal, individualized, and costly. Many products are similar despite their different names. One leisurely afternoon at the spa might produce $200–$500 on the folio.

**Guest Profiles.**  Guests have several profiles; they wear different hats under various circumstances. Personas change depending on the reasons for the visits. Sometimes they’re business persons, sometimes family members. They may be transient travelers, convention goers, tour group members, or excited tourists. They may be urbane or unsophisticated; they be nationals or foreign visitors.

Knowing guests in various circumstances, developing profiles, enables hoteliers to manage a variety of market segments. Profiles are gathered by many agencies, not just the hotel. Among them are trade associations, and convention and tourist bureaus. The typical study focuses on demographics. Age, income, job, gender, residence, education, and the number of persons in the party can be determined with a good deal of accuracy. Knowing one’s guests is the staring point for servicing them.\(^5\)

Some patterns are less measurable than demographics. Developers differentiate between upstairs and downstairs buyers. *Upstairs buyers* want larger sleeping rooms and comfortable work spaces. For this, they sacrifice theme restaurants, intimate bars, and other lifestyle accoutrements. Not so *downstairs buyers*, who use the concierge, want public space above all else, and are more extroverted. Generalizing, women are upstairs buyers and men downstairs buyers.

Profiles of extended-stay guests show something else entirely. They try to recreate a little bit of home by bringing personal items such as pillows, photos, and stuffed animals. Very long-term guests actually rearrange furniture. Both groups use the kitchenette sparingly. Both groups, along with almost every other class of guest, want good lighting and work space.

\(^5\)A business guest’s profile might read: “Male, 28–45 years old, married, holding a middle-manager’s job, salaried between $75,000 and $120,000. He is a solitary traveler, dependent on lap-top connectivity. A heavy cell-phone user, who comes by air, arrives early evening, holds a reservation, and looks for accommodations in the $135 range.”
**Business/Leisure Travelers.** Businesspersons need to be at a given place at a given time. Therefore, price is less important—not unimportant, but less important—to the business guest than to the leisure traveler. Businessmen and women are not apt to cancel a trip because of high rates, and they are not apt to make a trip because of low rates. Theirs is an inelastic market—there is very little change in demand from a change in price. The response from leisure guests is more dramatic: High rates repel them and low rates attract them. By responding to price changes, leisure guests represent a more elastic market.

All guests demonstrate some degree of elasticity. Even leisure guests may be inelastic; they just have to be there—a wedding, a funeral, and so on. Business guests may be elastic, rescheduling or postponing their meetings. Companies with travel desks, which schedule and buy travel (air, hotels, and car rentals) for their personnel, are more price sensitive. With someone other than the traveler doing the planning, businesses have shifted toward the elastic side. This shift helps explain the buyer's focus on the value of all-suite hotels.

Business guests are mostly men; tourists are mostly couples. Almost everyone watches television from the bed. Business travelers use the telephone, the shower, and the TV movie channel more than leisure travelers do. Tourists hold the edge on the pool and other recreational facilities. Leisure tourists tend to be 5 to 10 years older than businesspersons. They make reservations less often and pay less for their rooms than business travelers do.

Women are about one-third of all business travelers. That's a demographic measure. How best to please that market is a psychographic issue. Psychographic profiles detail traits, personalities, desires, and inner motivations. Every profile, whether demographic or psychographic, is flawed because no guest is ever 100% of the composite study. Besides, as the next few pages explain, the guest staying at the hotel, the one we profile, is probably not the person who actually selected the hotel. Demographic profiles tell us that male business travelers usually make their own arrangement more often than do female business travelers.

Both male and female business travelers use their rooms as offices. They give high priority to comfortable furniture and convenient work areas. Women executives (upstairs buyers) rank in-room coffee makers almost as important as the work area. Men rank coffeemakers at the bottom of their priority list.

Leisure guests still seek the sun and surf. But many have moved beyond that to nontraditional vacations. Niche resorts are offering out-of-the-ordinary experiences such as mountain climbing, rafting and archaeological digs. Guests are coming, buying, often paying handsomely for such adventures.

The economy market is just the opposite. Price-sensitive guests form the core of the budget customers. Who are they? Government employees on a fixed per diem (per day) allowance make up one segment. Retirees, whose time is more flexible than their budgets, go to the less convenient and less costly locations that economy properties require. Family vacationers and small-business persons sensitive to travel costs help round out this segment. International guests, who have different expectations from domestic travelers, are also part of the budget market, especially when the U.S. dollar is strong.

**The International Guest.** Globalization requires special attention to the profile of the international guest. Foreign visitors are big business. The World Tourism Organization (WTO) forecasts 102 million visitors to the United States by 2020. Since they spend more time and more money reaching their destinations, international guests stay longer than do domestic guests. Typically, theirs is a six-day visit, nearly twice the usual domestic stay. International visitors to the United States help the nation's balance of trade, representing some $50 billion in export equivalence.
Japanese visitors to Hawaii spend three times that of the U.S. tourist to Hawaii. Japanese visitors frequently tour in groups, even when they are honeymooning. Office groups (women), ski groups (men), business groups (rarely women), and silver groups (retired couples) are the profiles of the Japanese traveler. Hotels seeking foreign guests need to provide accommodations (Japanese, for example, want bedroom slippers provided), and meals, especially breakfasts, that cater to the tastes of their international patrons.

Preferred Guest Programs. Guest profiles have been sharpened by the introduction of preferred guest programs (PGP). Electronic recordkeeping and intrachain networks enable hotel companies to track their clientele. Just as frequent fliers earn points with airlines, guests earn points with hotel chains. Points are turned into gifts and free stays. To qualify, guests must provide information about their travel and personal habits. Hotel companies maintain demographic and psychographic information on millions of names. Marriott's list numbers some 20 million. The cost of maintaining these systems is borne largely by franchisees and hotel owners, not the chains. (Chains don't own many hotels, as the next segment of this chapter explains.)

Rewards range from the simple to the expensive. Among the less costly one are check-cashing privileges, room upgrades, daily newspapers, late check-outs, express check-ins, special telephone access for reservations and guaranteed rates. Up a stage and the reward becomes a fruit basket, a bottle of special water, or free in-room films. Under certain circumstances, even nonmembers can access some of these services.

Elite club memberships, achieved by earning many, many points, carry elite awards. Among them are rate discounts, health club memberships, accommodations in the chain's exotic destinations and U.S. savings bonds or even cash. Ethical issues are raised when cash and cash equivalents are the rewards. Hard-core PGP participants are almost always traveling on expense accounts paid by someone else. Cash rewards paid to the traveler are not well received. They might encourage employees to book at higher rates than could be obtained elsewhere.

PGPs cycle in tandem with economic conditions. Tough times bring additional perks such as double or triple points. During the downturn that followed 9-11, dramatic upgrades were offered throughout the industry. Like other amenities, preferred guest programs follow the competitors. One adds lower brands to the coverage; others follow. Some partner with competing chains; others follow. Expensive gift vouchers of the likes of Saks Fifth Avenue are distributed through gift catalogs; others follow. Tie-ins allowing hotel points to be used for airline travel are introduced; others follow.

During the last downturn, blackout dates were dropped, elite travel status was eased, more brands were placed under the one umbrella, stockholders were automatically included. And amenity creep crept in. Once in place, upgrades are difficult to withdraw when the good times roll. Moreover, there is little distinction anymore among the offerings. Frequent guests have suggested that the companies improve the telephone service and procedure used to redeem the amenity rather than broadening coverage that was already stifling.

No one really knows how much business PGP actually represent. It is known that they add more name confusion to branding. Wyndham adds Trip Rewards to the 19 chain names under its umbrella. Hilton has HHonors Club and 12 other brand names. There are two golds, Gold Crown Club (Best Western), and Gold Passport (Hyatt). Marriott, with 19 brands has finally changed its PGP name from Honored Guest Awards to Marriott Awards.\footnote{These and other brand names used throughout the text are registered trademarks.}

Despite the cost, the real lack of competitive difference, and the uncertainty of their effectiveness, no company dares close its program. Airlines have the same dilemma. It
was the chairman of American Airlines, Robert Crandall, who invented frequent fliers. Hotels will likely do what airlines have done: gradually tighten access, increase points, and reduce awards. At least they’ll do that until the next downturn in business.

**Nonguest Buyers.** Nonguest buyers are intermediaries who buy guest rooms. They are not guests and have no intention of becoming guests. These third parties may be actual persons, but just as often they are legal persons (companies, associations, and organizations). Later chapters on reservations and room rates deal more thoroughly with the mechanics of this type of buyer. Nonguest buyers add costs to, and organizational levels between, the hotel and the eventual room occupant. It’s obviously not to the industry’s advantage. The idea came from outside, not from within, lodging. With nonguest intermediaries, hotels are not selling rooms to guests. They are buying guests through new marketing channels.

Nonguest buyers negotiate from strength. The American Automobile Association (AAA) and the American Association of Retired Persons (AARP), for example, haggle with hotel chains over room rates. They obtain special rates for their members, although neither the associations nor the hotels know who those guests will be. So widespread is this practice that almost every hotel grants the guest’s request for a special AAA rate. Hotels often do so without verifying that the guest is an AAA member. Travel clubs such as Amoco Traveler and Encore Travel negotiate a different commitment: second nights free.

A second type of nonguest buyer actually buys the rooms, rather than just negotiating rates. More and more business travel is arranged by “travel desks.” Either the business operates its own desk or employs an outside agency. Whichever, the buyer is not the arriving guest.

Franchisees rely on the franchisor’s reservation system, another type of nonguest buyer, to generate room occupancy. The room commitment is made by the system, a third party. Quite possibly, the system isn’t even owned by the franchisor, rather by still another party.

The broad range of third-party buyers is detailed next. Group tours, incentive firms, and wholesalers make huge room commitments, but someone else occupies the room. The same is true with travel agents: They buy rooms, but it’s their clients who come. Airlines, Web sites, and auto-rental companies round out a growing list of nonguest buyers.

**Marketing to the Group**

Group business is a post–World War II (1950s) innovation that changed the very concept of hotelkeeping. Modern hotels became destination sites without giving up their historic role of transient accommodations. Now, instead of selling one buyer one room, hoteliers sell dozens, hundreds, or even thousands of room nights at one time. One constant remains, the guest’s profile. Buyers are either tourist/leisure visitors or business/commercial groups.

**Tourist/Leisure Visitors.** Rising disposable income and broader travel horizons have made travel appealing to every level of society. Packaging travel and accommodations has brought costs low enough to attract huge numbers of the world’s citizens. The travel and hotel industries have embarked on the same kind of mass production techniques that have increased efficiency in manufacturing. The move was delayed until the transport carriers and the destination hotels were large enough to move and house these large numbers.

**The Tour Package.** Groups of tourists, especially first-timers, travel together in tours. A new entrepreneur, the wholesaler, another nonguest buyer, has emerged to handle the mass movement of leisure guests. Wholesalers buy at wholesale (reduced) prices because they buy in quantity. They buy blocks of rooms (commitments to buy so many
rooms for many nights), blocks of airline seats, and blocks of bus seats. Then the wholesaler tries selling the “package.” By this time, the offer includes ground handling and baggage along with other goodies that the wholesaler either buys inexpensively or gets without cost from the hotel (see Exhibit 2-9).

Wholesalers promise year-round, back-to-back charters (each departing group is matched by an new, arriving group). Hotel sales executives and accountants sharpen their pencils to accommodate the price. One sale books hundreds of rooms. One correspondence confirms all the reservations. One billing closes the account. Bad debts are minimized and credit-card costs are eliminated. It is a bargain buy for the traveler, a profitable venture for the wholesaler, and free advertising for the hotel. More importantly,

### Exhibits

#### Exhibit 2-9

Sample of print advertising used by this hypothetical tour operator, *Vacations—Round the Nation*, to sell packaged vacations. Buying in quantity puts this wholesaler at risk of not reselling all of the spaces. But quantity purchasing reduces costs from hotels and airlines making possible huge savings. (See also travel pages of local newspapers.)
the hotel now has a basic occupancy on which to build its room rates (see the discussion on yield management).

Group tours are packaged in a variety of wrappings, some reminiscent of the old American plan. Transportation, room, food, beverage, entertainment, tips, and baggage are offered for one fixed price. (Unlike the all-inclusive plan, not all items—not every meal or every drink—are included, so the hotel stands to gain from additional business outside the package.) Often, the wholesaler can sell the entire package for less than the cost of the airfare alone, having earned sharp discounts from the hotel and the airline.

The wholesaler also benefits from breakage. Every guest does not use every part of the package. Some may not play golf. Others may not use the drink coupon. Others may skip the buffet for a specialty meal that they pay for separately. If the guest does not use the service, the hotel is not paid. Still, the item was computed in setting the package price. That small gain per guest, multiplied by many guests, accrues to the wholesaler as breakage.

The guest gains too, buying services at a fraction of their separate costs. The travel industry, hotels included, gain as well because mass marketing introduced new customers to travel. Inexperienced guests find comfort in the safety of the group; experienced travelers find irrefutable savings. The downside is a loss of guest identity. Even the hotel staff senses a reduced responsibility when guests buy and pay through a third party.

Almost any hotel can host a tourist group if it can attract the group to the site. It must meet the price of a very competitive market to appeal to the wholesaler, and it must be large enough to accommodate the group and still handle its other guests. Hotels in out-of-the-way places cater to bus groups. They’re a broader market because the number of guests is smaller and almost any hotel can handle them. With bus tours, hotels provide a mix of destination and transient service because after touring the area, the bus moves on, usually after one night.

The Inclusive Tour (IT) Package. The IT package is marketed to individual guests. Logically, it should have been discussed under the heading, “Marketing for the Individual Guest.” It’s here as part of “Marketing to the Group” because the IT package so closely resembles the just-discussed wholesaler’s tour package. The tour package requires numerous buyers to make it profitable. Couples or small groups of friends are the target of the IT package.

Group tours involve financial risks (air and land transportation) outside the hotel’s control. The hotel’s IT package is the same as the wholesaler’s tour package without the risks. Guests get to the hotel on their own. Once there, the package is the same; often it is better. The basics remain: room, food and beverage, hotels add “freebies.” One or more extras are included, such as free tennis or putting green, shuffle board, etc. Free admissions sweeten the deal. So tickets may be included to theaters, formal gardens tours, spas, or tournaments. The deal looks better if these extras normally require a fee. Casino ITS include one free play at a table. Breakage now accrues to the hotel; the wholesaler is no longer in the picture.

Both the wholesaler and the hotel market directly to the public. Exhibit 2–9 would be a newspaper advertisement. Exhibit 2–10 could also be used similarly or distributed individually across the desk, through the mail, or to convention attendees. Travel agents are traditional advertising outlets. Travel agents normally receive a 10% commission on rooms booked for their clients. Because ITS do not break out room costs from other services, the hotel pays 10% on the entire package price.

One hotel may offer several IT packages. Each (a golf package, a spa package, a valentine package) is aimed toward a different market. Commercial hotels use them extensively to offset weekend doldrums—the Run Away with your Wife package. The
WEAKEN' WOEBEGONES

WEEKEND WITHOUT WOES

3 DAYS AND 2 NIGHTS

$237.50

PER PERSON

DOUBLE OCCUPANCY

Total cost for double room, breakfast in bed
one morning; dinner for two in the steak house;
spa use for two for one day; split of champagne
upon arrival; turn-down service.

Subject to availability with Friday night arrival. Package not
available for groups or persons attending meetings or conventions.
Package price and contents subject to change without notice.

GIFT CERTIFICATES AVAILABLE

The Urban Hotel

A Value Corporation Property

4444 Main Street • Any City, U.S.A.
Telephone: 555-111-2222
www.valencorp.com
or see your travel agent

Exhibit 2-10 Inclusive tour (IT) packages are the hotel’s method of competing with the
tour wholesaler (see Exhibit 2-9) except transportation is not included. The package is com­
plete within the hotel. IT packages compete with individual room rates, so they are offered and
withdrawn by the hotel as occupancy dictates under a yield management system (see
Chapter 5).

contents and price of each varies. Care must be exercised because the hotel competes
with itself. Inclusive tour packages are discounted rooms with extra services that sell
for less than the normal room rate. So ITs are discontinued during high occupancy peri­
ods. Later chapters deal with discounted rooms, under the topic of yield management.

Business/Commercial Groups. Our fondness for forming into groups has
produced an astonishing number of organizations. People come together under many
umbrellas: business, union, fraternal, social, historical, veteran, health and medical, educational, religious, scientific, political, service, athletic, and on without end. For short, the industry uses the acronym SMURF: societies, medical, university, religious, fraternal, or sometimes SMERF: social, military, educational, religious, fraternal. Each classification translates into numerous organizations, societies, clubs, and associations. Each of them meets, holds shows, and stages conventions. Functioning at local, state, regional, national, and international levels, these groups offer business to a variety of destination facilities.

Conventions. Conventioneers assemble to promote their common purposes. These aims are as diverse as the list of associations that hold conventions (see Exhibit 6–14). Meetings, speeches, papers, and talks are given on a range of topics during the gathering of two, three, or four days. Some are professional and some merely entertaining. The members also interact individually, discussing common goals and problems. Professional conventions may serve as formal or informal job-placement forums.

Both urban and resort properties vie for convention business as the growth of mixed-use facilities spreads. To be competitive, the convention hotel must provide a range of self-contained facilities. Meeting space with appropriate furnishings and equipment and food facilities large enough to accommodate the groups at banquets are the minimum facilities needed (see Exhibit 2–6). Conventioneers are a captive audience for the program and the planned activities. The more complete the property, the more appealing the site.

Sports activities, a change of scenery, and isolation from the hubbub of busy cities are touted by a resort's sales department. Urban properties compete with theaters, museums, and historical locations. Urban areas may have the advantage of publicly financed convention halls (see Exhibit 2–11). Hotels sometimes combine facilities with those of nearby competitors when the convention size is too large for one property. Although not the rule, conventions of 50,000 to 100,000 delegates have been recorded, usually when combined with trade shows.

Trade Shows. Trade shows are exhibits of product lines shown by purveyors to potential buyers. Conventions and trade shows are often held together. Shows require a great deal of space, particularly if the displays are large pieces of machinery or equipment (see Exhibit 2–11). Space requirements and the difficulty of handling such products limit shows to a small number of hotels. The city convention bureau has a role here. It builds halls to accommodate the exhibits, leaving the housing and guest service to the local hotels.

Exhibits of small goods such as jewelry or perfume can be housed almost anywhere. They do not need convention halls of 1,000,000 square feet. Any hotel can pursue small trade shows. Although not commonly done, several sleeping floors can be assigned to small-product exhibits. Guest rooms are converted into a combination of exhibit space and sleeping accommodations. Shoppers visit the room to do business. At day's end, the exhibitor occupies the room as a registered guest.

Competition for conventions and trade shows is coming from a new source, corporate training centers. Not hotels and not conference centers, training centers were built by and run for specific companies. They are in-house training sites that, like hotels and conference centers, abhor vacancies. So the likes of U.S. Postal Service (Norman, OK) and Aetna Insurance (Hartford, CT) will happily book transient guests or group business and trade shows into facilities built for their own training purposes.

7Asian hoteliers use MICE as the acronym: meetings, incentives, conventions, and exhibits.
Exhibit 2-11  Publicly supported convention centers solicit and house trade shows whose delegates may number in the tens of thousands. What is good for the local hotel business is good for the community’s economic health. That value approximates $266 per day per delegate (see Exhibit 6-10) during a three- or four-day convention. Courtesy of Las Vegas Convention and Visitors Authority, Las Vegas, Nevada.

The Single Entity. The single entity is neither a tour package nor a convention/trade show. As its name implies, single entity has an adhesive that binds its members together. Attendees already belong to “the” group (a company, an orchestra, a college football team) before they come to the hotel. The unit (the company, the orchestra, the college football team) makes the reservation, and the unit pays the bill. The single entity stays together during the engagement: They hold meetings; they perform; they play ball.

Although the visiting athletic team is the best example of a single entity, hotels cater to a wide range of other groups. There are company sales and technical meetings, new product-line showings, traveling concert groups, annual high-school graduation trips, and others. Hotel/casinos have their own form of the single entity, the gambling junket. High rollers are brought in to the hotel for several days of entertainment and play.

The tour group offers a contrast. Tour group members have no previous relationships. They come together only for the trip. Each member pays the wholesaler a share of the cost plus profit. With a single entity, the entity pays the hotel bill, not the individual members. There are no profits. Tour groups dissolve after the trip; single entities retain their original relationships.

Certain single entities (say, a church group) may contribute prorated costs. Business entities (say, a company training program) would pay the entire cost. Single entities are arranged and paid for by the entity’s leader, who is a member of the entity. The tour group negotiator is a for-profit businessperson. There are similarities: Both commit to a block of rooms and both pay a single bill (called a folio) for the rooms (see Chapter 10).

Attendees at conventions and trade shows are unlike either the tour group or the single entity. The room block is most likely made by a nonguest buyer, a professional
trade-show executive. Convention delegates make individual room reservations within that room block. Delegates, who represent a wide range of companies and geographies, pay their own bills. Each conventioneer comes and goes without concern for the schedule of other delegates. The subject matter of the convention may be their one common interest. Convention-goers may not know other attendees, or they may have come with others from the same company. If there are many representatives from the same organization, they may be billed as a single entity within the convention.

**Incentive Tours.** Incentive tours are special, highly prized single entities. Businesses run incentive programs to motivate employees. Cash bonuses, prizes, and incentive trips—a free vacation for two—are rewarded to those who meet announced goals. Many winners from one company make up an incentive tour, a single entity.

Resorts covet incentive tours. The winners are the company's top people. Only the best accommodations will do. Unfortunately for the resorts, incentive tours have grown so important that most companies hire incentive-company specialists. Hotels know them as nonguest buyers!

Incentive companies run incentive programs for many businesses. This gives the incentive company leverage against the hotel. The two sides bargain tough when bookings for several incentive groups are possible. The incentive company exerts the same pressure on the hotel/seller as does the tour operator. More than one sale is at stake. Price and quality are the difference. Cost is critical for the wholesaler, quality for the incentive buyer.

**NEW OWNERSHIP PATTERNS**

**The State of the Industry**

Historically, the inn was a family affair with the host-guest relationship paramount. That began to change after World War II (early 1950s) when ownership and management became separate activities. Those who owned the hotel did not operate it. Those who operated the hotel did not own it! As the separation widened, hotel chains concentrated on managing both their own hotels and those belonging to others. Those who owned the buildings and the lands on which the hotels stood were concerned more with the hotels as properties, pieces of real estate. Income taxes, depreciation, rent, and financing are more important to owners than are day-to-day operational problems. That difference brought huge changes in the lodging industry.

**Turbmoil and Churning.** Chapter 1 explained the cyclical nature of hotelkeeping. Good and bad times roll in on the waves of change. The cycle is dramatic because unforeseen events come quickly and from a variety of causes. For example:

Income tax laws were changed in the 1970s. Before that, speculators bought and sold hotels at ever-increasing values. The gains came from turning the real estate, not from operational profits. Then Congress repealed the tax advantages. Suddenly, there was no point in trading hotel equity. Earnings from operations were insufficient to pay the mortgage debt on the high values of the real estate. Estimates placed about two-thirds of nation's hotels in financial distress. Prices plummeted and the industry went into shock. For those who had waited, there was a silver lining. Bankrupt hotels resold at distressed prices. Now earnings were adequate to meet the lower mortgage obligations.

Recovery brought optimism, the first good signs in more than a decade. Business travel was increasing, occupancy improving. Distressed hotels had closed, so room supply had fallen. Increased demand and reduced supply meant a healthy industry once again.
The turnaround gained momentum beginning in the early 1990s. Sales climbed; operating costs were held in check by low inflation. By 2000 new construction (increased room supply) was hinting at another cycle of overbuilding and another downward spin. Before the trend was clear, the nation was hit by the horrific events of September 11, 2001 in New York City. The entire nation, but especially travel and tourism, experienced sudden churning and unforeseen turmoil. Occupancy and RevPar plunged. Searching desperately for business, hotels, and airlines, too, allowed another market source to gain hold, another nonguest buyer, Web sites.

**Churning.** Churning is rapid buying and selling, buying and selling anything—including hotels. Oddly, one of the major hotel churners is not even a hotel company. The Blackstone Group is a private-equity firm that invests in real estate. It became interested in hotel real estate when the values plummeted after 9-11.

A small extended-stay chain, Homestead Village, was its first acquisition. Blackstone subsequently bought Extended Stay America, Boca Resorts, Prime Hospitality, and Wyndham Hotels. Each had additional brands. It diversified next by paying some $3.5 billion for La Quinta and La Quinta’s seven brands, including Baymont Inns. In rapid succession, Blackstone then sold Amerisuites and the management and franchising rights for Wyndham Hotels. In keeping with its own mission, Blackstone did not sell Wyndham real estate. Next it sold the Baymont brand. These sales/deals were negotiated with Cendant Hotels, a churner in its own right.

Cendant owned 19 different hotel chains, among them Days Inn, Howard Johnson, and Wyndham. It also owned travel, auto-rental, tax, and real estate companies. Cendant no longer exists: It broke itself into four separate companies. The hotel division was renamed Wyndham Worldwide, the very brand that it acquired from Blackstone shortly before its breakup.

There are many real estate churners in the lodging industry. Large hotel companies have no desire to own hotel real estate; we will see why in detail shortly. So companies such as Starwood sold several dozen hotels to a REIT named Host Marriott, later renamed Host. Colony Capital, another equity firm, bought the Raffles Hotel Chain (Singapore), the Bahamas-based Kerzner casino company, and the Fairmont Hotel Chain, San Francisco.

Hotel real estate transactions during the height of the industry’s 2006–2009 peak are estimated to be as high as $60 billion annually.

**A Consolidating Industry.** Consolidation—bigger hotel companies and fewer of them—has contributed immensely to the industry’s churning and turmoil. Whether the cycle is up or down, the big guys have grown bigger (see Exhibit 2–12). Growth comes from acquisitions, from adding new properties to existing brands, and from inventing new products. Growth is facilitated when the stock market booms. Shares of hotel companies increase in value. These shares, rather than cash (money), are used as currency to buy competitors or smaller companies.

Acquiring other companies is more than a stock market game. Consolidation promises economies of scale and larger marketing and distribution networks for the chains. Growth comes faster and flashier from acquisitions than from internal growth. Buying instead of building produces immediate increases in revenues. It also makes good business sense. Acquiring hotels from an existing company costs less than building new ones. During the past several years, hundreds of acquisitions with multiple brands have consolidated into just a few large holding companies.

One of many ongoing examples follows. The explanation is neither complete nor current because the lodging industry is in continuous movement. Quite likely, Hilton’s company structure will have changed even before this text’s publication.
The Modern Hotel Industry  Chapter 2

The Big Guys of the U.S. Hospitality Industry

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Estimated Number of Hotels</th>
<th>Estimated Number of Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Western</td>
<td>4,250</td>
<td>325,000</td>
</tr>
<tr>
<td>Carlson</td>
<td>1,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Choice</td>
<td>5,000</td>
<td>425,000</td>
</tr>
<tr>
<td>Hilton</td>
<td>2,500</td>
<td>375,000</td>
</tr>
<tr>
<td>Marriott</td>
<td>2,750</td>
<td>500,000</td>
</tr>
<tr>
<td>Starwood</td>
<td>1,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Wyndham</td>
<td>7,000</td>
<td>550,000</td>
</tr>
</tbody>
</table>

* Generally used name, not official, legal name.
* Figures are estimated and rounded.

Exhibit 2-12  Growth, consolidation and churning within the lodging industry have created large companies. They’re big, tough competitors. These seven chains control an estimated 2.5 million rooms.

Hilton Hotels Corporation.  Hilton grew during the late 1990s by acquiring DoubleTree Hotels. DoubleTree already owned Homewood, Hampton, and Embassy Suites. These were acquired when DoubleTree bought Promus, which was spun off from Holiday Inn.

DoubleTree also owned Guest Quarters, Red Lion Inns, Candlewood Hotels, Patriot America, and Harrison Conference Centers. Hilton was after the brands, not the real estate. Hilton is a management company, not a landlord. Not long afterward, Hilton sold many of these brands and all of its gaming properties, including those in Las Vegas. It kept its Vegas timeshare property, branded as Grand Vacations.

Hilton’s biggest coup was still to come. In 2006, Hilton bought Hilton International from its British owners for about $6 billion. The seller’s official name is The Hilton Group, PLC. Pressed for cash in 1964, Hilton had sold the international rights to its name. Later, it created the Conrad brand—Hilton’s founder was Conrad Hilton—to compete overseas. In reacquiring its offspring, and with it the Scandic brand, The Hilton Corporation reemerged as an international player. Hilton used cash, not stock to make the deal. In 2007, Hilton sold itself to the Blackstone Group for $20 billion.

As an aside, Hilton enlarged its real property ownership. As mentioned earlier, modern hotel companies do not own hotels. In fact, Hilton had sold two dozen properties, including the Palmer House, a Chicago landmark, right before its new acquisition. Whereas the Hilton Group owned about 10% (40 hotels) in its group, The Hilton Corporation owned only 8 hotels before the purchase. Eight hotels is less than one-third of 1% of Hilton’s 3,000 properties. As expected, Hilton sold off most of the newly acquired real estate within the first year, retaining the management contracts.

The Corporation also launched a new brand as part of its invigorated realignment. The Waldorf = Astoria Collection builds on the reputation of New York City’s famed Waldorf = Astoria Hotel, one of the eight properties that Hilton owns.

The Global Village.  The global village, shorthand for shrinking political differences and interlocking economies worldwide, has enabled businesses to cross borders and jump oceans. Hotel companies have been among the leaders. Consolidation has
been possible, in part, because of the global village. The Hilton experience with a British acquisition highlights the point. So do the sales reported in the “churning” segment above. Among them is Starwood’s takeover of Le Méridien, which operates in 21 different countries. It’s the same story with Colony Capital’s purchase of Raffles (see Churning). Raffles owns Swissotels, which has some three dozen locations.

Who pursues whom often depends upon the value of international currencies. If foreign investors want to buy a U.S. hotel, they need U.S. dollars. When the dollar is weak, fewer units of the foreign currency are needed to buy the necessary dollars (see Exhibit 12-12). The international buyer with the strong currency gets a bargain. China is in that position now. Japan was similarly situated 30 years ago. All currencies, including dollars, go up and down in value. The United States started the overseas movement in the 1950s when the dollar was very strong.

Many international chains have moved globally (see Exhibit 2–13), and many U.S. chains have made subtle name changes. Best Western, for example, became Best Western International; Quality Inns became Choice Hotels International.

There is more to global participation than currencies. Companies go international to acquire a foothold on another continent, to acquire assets (management talent or reservation systems) and to open new markets for their brands. Consumers prefer branded products, seeking the security and certainty of a brand they know. That works for U.S. travelers going abroad and for international travelers coming to the United States.

Political stability is another factor. Foreign investors may face serious financial loss from political uncertainty. Better to invest elsewhere even if the price is higher than risk loss from confiscation of the hotel. The United States is attractive to foreign investors because the loss from political uncertainty is unlikely. That’s especially important to non-American developers. They have longer business horizons and are more focused on the real estate property than are their U.S. counterparts.

<table>
<thead>
<tr>
<th>Company Name and Identity</th>
<th>Estimated Number of Rooms</th>
<th>Countries of Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accor (France)</td>
<td>500,000</td>
<td>China, France, India, Sweden</td>
</tr>
<tr>
<td>InterContinental (U.K.)</td>
<td>550,000</td>
<td>Andorra, Gabon, Kazakhstan, Rwanda</td>
</tr>
<tr>
<td>JAL Hotels (Japan)</td>
<td>20,000</td>
<td>China, Germany, Myanmar, Taiwan</td>
</tr>
<tr>
<td>Rezidorc (Denmark)</td>
<td>45,000</td>
<td>Croatia, Ireland, Senegal, U.K.</td>
</tr>
<tr>
<td>Sol Meliá (Spain)</td>
<td>85,000</td>
<td>Costa Rica, Mexico, Spain, Venezuela, Viet Nam</td>
</tr>
<tr>
<td>Taj Group (India)</td>
<td>9,000</td>
<td>Malaysia, Maldives, India, Seychelles</td>
</tr>
</tbody>
</table>

a Values are rounded.
b Representative; lists are not complete.
c Strategic partnership with Radisson SAS (Carlson).

Exhibit 2–13 Maturing markets abroad and the relative strengths of world currencies encourage both American and foreign chains to operate domestically and internationally.
Ownership and Financing Alternatives

Early inns were family homesteads under the direct control of the innkeepers. Owners and managers were the same persons. The arrangements grew more difficult as the size of hotels increased. Large hotels require large amounts of money, sums beyond the means of most families. Gradually, the financing/ownership of the building separated from the operation/management of the hotel. The separation gained momentum from two developments. Corporations became another legal means of ownership and larger hotels were built using new construction techniques.

Individual Ownership. There are still large numbers of individually owned hotels. Many are held by members of the Asian American Hotel Owners Association (AAHOA). They are usually small, fall within the economy class of roadside motels, and carry a franchise flag. Best Western International is another affiliation of individual owners, but it is not a franchise group.

Owning a single hotel or even several is not the same as maintaining a family homestead. The issue is not where the family dwells, but where the financing originates. There are still instances when the cash to buy or build come from the extended family. Uncles and aunts, cousins, and in-laws are tapped for the equity (the ownership portion). A localized hotel may get equity from community professionals and businesspersons who invest because of public pride.

Borrowed funds supplement equity monies. Lenders are local banks and investment groups or even the franchise company bidding for the flag. The money needed to complete the deal can be borrowed with government support. Small business loans are financed by local and regional banks. Portions of the loan can be guaranteed by two agencies of the federal government. One is the Small Business Administration (SBA), another the Business and Industry Loan Guarantee Program of the Department of Agriculture. Small entrepreneurs borrow more easily and less expensively when lenders are guaranteed 80% of their loans by these agencies.

More equity money is needed as the project grows. Then the effort shifts from Main Street to Wall Street and the sale of shares (stock). En route, borrowed money comes from regional and national banks, from insurance companies and pension funds. At one time, labor unions were a source. Investment bankers and mortgage brokers and private equity firms join the flow that supports hotel development. During the downturn of the 1980s, when prices fell so low, some franchise companies, Choice Hotels particularly, began buying. About the same time, a new financing vehicle emerged to energize the market once again, the REIT.

Real Estate Investment Trusts (REITS). REITS can own hotel properties just as individual owners or corporations do. Although the concept has been around for some time, it was rediscovered during the 1990s and provided the funds for that upturn.

REITs are public companies that raise capital through the sale of stock. Individual investors easily buy or sell small pieces of the REIT through the stock market. The REIT uses these funds along with borrowed funds to acquire hotels. Risk is spread among many hotels and many investors. There are also nontraded REITs.

Prior to 2001, there were legislative limitations placed on REITs. They were not permitted to be in any business other than real estate ownership. A REIT could own a hotel, but not operate it. A REIT could not provide services to its tenants. REITs could not have earnings from rooms, food, or beverage sales. One big advantage offset these disadvantages: REITs pay no income taxes so long as 95% of their taxable income (90%, under the new law) is returned to shareholders. That increases the REIT's appeal to the typical stock market investor, who may know nothing about hotel ownership or operations.
Some restrictions, but not the tax advantages, were lifted by Congress in the REIT Modernization Act of 2001. Entrepreneurship was the essence of the 2001 change. Old REITs were merely rent collectors. New REITs were able to sell services through wholly owned subsidiary companies that do pay income taxes. To aid the distinction, the REITs’ tax-paying subsidiaries are called C Corporations. REITs are not limited to lodging. There are REITs specializing in apartments, hospitals, retail malls, and other types of real estate.

The story of hotel REITs is put into perspective by following what happened at Marriott. In 1993, Marriott formalized the distinction between management and ownership. The company split into two parts, Marriott International (management) and Host Marriott (equity). Just three years later, Host Marriott broke itself into two pieces, converting one into a specialized hotel company, a real estate investment trust. That REIT took advantage of the new 2001 law to buy Crestline Capital. Crestline separately owned the operating subsidiaries required under the old law. The REIT Modernization Act now allowed REITs not only to own the hotel real estate, but to own as subsidiaries the companies that operated the hotels. Host Marriott (the original 1996 REIT) bought and sold innumerable hotels in 2006. It bought 38 from Starwood in one transaction. (Talk about churning!) Host Marriott then dropped the old Marriott name to become Host Hotels, the world’s largest hotel REIT.

**Condominiums and Timeshares.** Condominiums (condos) and timeshares (interval or vacation ownerships) are two other ownership patterns. They differ from individual ownerships, from partnerships, from corporations, and from REITs.

Both have their origins in destination resorts. Condos are an American innovation that first appeared in ski resorts, such as Aspen and Stowe. Timeshares, a later development, are a European idea that took hold in North America’s sunshine coasts, Florida and Hawaii. Florida ownership has been fueled by the weakness of the dollar. Foreign buyers have come because of the currency imbalance and the security of domestic real estate. The United States is now the world’s largest market, but condominiums are gaining worldwide. Europe, especially, is experiencing growth in condo hotels.

**Condominium Ownership.** Condos and timeshares are often confused because the physical buildings look alike. The ownership of the units is the distinction, not the blueprint of the building. Condos are real-estate purchases; timeshares are not. The craze for condo ownership was nurtured in a favorable income-tax environment. Measured growth continues even though tax incentives have been removed.

Today’s condominium may be the owner’s home, a second home, or a speculative buy. Guests finance the unit as they would any home purchase, but real-estate gains are still part of the play. Owner/guests own their own units and furnish them to personal preferences. As members of the condo association, they also own the common space and grounds.

The concept of mixed-use facilities grew from these new ownership patterns. Because owners are not always in residence, there’s an opportunity to rent the unit. On-site management is needed to service the transient guest: to provide linens, maintenance, and more. A hotel company is the perfect answer, and adding an adjacent hotel a logical extension. Then both owners and guests can access all the services and amenities. Next came retail outlets, health clubs, entertainment venues, timeshares, and white-collar businesses. The mixed-use development, which is so popular today, was born.

There are endless permutations to the basic plan. In its simplest form, the guest reserves so many days per year for personal use, and puts the unoccupied times into the rental pool or not, as preferred. Profits, if any, from the participating unit are paid to
the homeowner under some rotating, pro-rata plan. Homeowners may elect to have their own management company handle rentals. If so, the owners, who have helped the developer finance the construction, now occupy the units as guests and hire the management to rent to themselves.

A new variation on condo ownership is taking place by the swimming pool. Cabanas, poolside huts, at upscale resorts (some with baths and even kitchens) are being sold as timeshare and condominiums. Costs can run into the tens of thousands of dollars.

**Condo Hotels.** No surprise that a condo hotel would be part of a resort project. Locating condos within commercial hotels is a more recent development. Residential guests are buying condominiums as parts of urban hotels rather than as adjacent supplements to free-standing hotels. The idea is part of a broader social movement that is bringing residents back to city centers. The Ritz-Carlton in downtown Boston is a good example. Internal condos help the developer in financing. They also upgrade the type of accommodations available to long-term, residential guests. (See also residential hotels in Chapter 1.)

Unlike resort condominiums, the space of the permanent occupant is not available to transient guests. What if circumstances change and permanent occupants decide to make their condos available? Is such space computed in occupancy and RevPar? Are rooms not owned by the hotel available for occupancy if not occupied by the owner? If so, or even if not, how is the occupancy percentage calculated? If left vacant, are these room computed in the revenue per available room? A more pressing current issue is the conversion of older hotels to condo hotels.

The switch, which is accelerating nationwide, has alarmed many city fathers because conversions reduce the number of rooms available. Fewer transient rooms threaten to impact local tourism and convention solicitation. Moreover, there is a loss of municipal income from fewer transient rooms subjected to room taxes. New York City lost some 10,000 rooms including the Plaza Hotel’s renovation, the most publicized nationwide. Government officials both there and elsewhere are threatening regulations to stem the movement. Pressure from New York officials forced the Plaza to retain more transient rooms than first planned.

**Timeshares.** Unlike condominium sales, the first timeshares were not real-estate purchases. Buyers did not buy a unit; they bought only the right to use the unit for so many days each year over a fixed time period. There was no property deed. At the end of the period, 20–40 years, the developer—not the guest who had paid upfront money as well as fees for many years—owned the unit. In contrast, condominium owners took title immediately.

Timeshares started out with very sleazy reputations. Sales without titles were not real-estate sales, so none of the 50 states regulated the industry. Numerous consumer complaints about pushy, unethical sales techniques forced state regulation of the industry. Cooling-off periods of 10 to 30 days, when buyers are out from under the high-pressure tactics of the timeshare seller, was one critical regulation. Once credibility to timeshare ownership was established, large hotel companies entered the business. Disney, Hilton, Hyatt, and Marriott among others reassured buyers. Timeshare sales entered a new phase.

Marketing executives of the chains contributed to the turnaround simply by changing the name. Timeshares became interval ownerships, vacation clubs, vacation ownerships, or fractionals. Private residence clubs are expensive timeshares with longer commitments than the standard one or two weeks.

Names aside, timeshares remain a very poor investment. Getting out from the contract’s annual cost is almost impossible; resale is practically unknown. Buyers who give them back may still be responsible for annual fees. eBay often lists units for sale at 10%
of their original cost. The other major negative, coming to the same place at the same
time for 30 years, has been alleviated by two types of exchange arrangements, but not
without cost.

Exchanges. Exchange clubs developed almost at the start of the timeshare idea. Like
the industry itself, exchange clubs have matured to provide a legitimate service to
a booming industry. Resort Condominiums International (RCI) and Interval Interna-
tional (II) are two of the better known names. For a fee, plus the deposit of the unit into
the exchange pool, accommodations can be traded. Resorts at both ends of the trade must
be affiliated members. RCI advertises over 3,500 resorts worldwide, II about 2,000
properties.

The importance of swapping was not lost to hoteliers. Two types of exchanges have
developed. One builds on the hotel companies' preferred guest programs (PGPs). Timeshare
guests can trade vacation units for other PGP values, including airline tickets. Disney
goes one better, allowing exchanges for cruises.

The second type of exchange integrates resorts with timeshare facilities. It is so nat-
ural an affiliation that the two facilities are very often built side by side. Prospects are
offered free or discounted minivacations at the resort, provided they listen to a timeshare
sales pitch. These are long, pressurized sessions. The gift(s) is/are rescinded if the guests
leave early. The synergy is reinforced by housing the guest-client in one of the units. As
with condominiums, the marriage of timeshare units and hotels is logical. The hotel
offers the infrastructure (spas, golf courses, restaurants) that the fractional lacks. The
large size of the party in the timeshare and the continuous occupancy of the unit offsets
the less consistent base of the hotel's clientele.

Role of the Timeshare. Timeshares and condos are financing alternatives, addi-
tional capital for the developer. Converting existing resorts, or parts of them, was the
first step in timeshare development. The funds were used to pay debts, upgrade and
refurbish facilities, or line the pockets of the owner. This conversion phase failed because
buyers wanted more than renovated hotel rooms. Converting larger, extended-stay facil-
ties with kitchenettes was equally unsuccessful.

Developing new buildings with upscale accommodations and space takes capital.
So the developer sets out to sell each unit 50 times, once each week. The more desirable
the time purchased, in-season versus off-season or shoulder season, the more the unit
costs. An 80-unit property may have as many as 4,000 participants annually
(50 weeks × 80 units). The figure swells when the actual number of persons in each unit
(2-6) is added in. For this illustration, a lucky developer could gross $100,000,000
upfront to finance the projects. All the units would need to sell at an average of, say,
$25,000 each ($25,000 × 80 units × 50 weeks). This substantial sum is reduced by
very high sales and marketing costs, including commissions to salespersons.

The up-front calculations must be tempered by several realities. Only a percentage of
the units are actually presold and two weeks of the year are held back for maintenance.
California law actually limits sales to 50 weeks. Unlike condominiums, where upkeep is
the owner's responsibility, timeshare repairs, services, and furnishings are the developer's
costs. Some expenses are offset by weekly maintenance and housekeeping fees levied on
the occupants for T&T—trash and towels—but may also cover insurance costs.

Innovations have followed the legitimizing of the industry. The first was the deeded time-
share, where buyers actually take title, just as they do with condominiums. Deeded timeshares
can be resold (but not easily), gifted, exchanged, willed, or rented. They may even
appreciate in value. But that is so unlikely that suggesting it to new buyers is forbidden by
the American Resort Development Association, the timeshare industry's trade group.
Limiting the number of participants is another idea being tested. Rather than 50 buyers per unit, the property is sold in, say, eight-week blocks to, say, six buyers. Rotating weeks is yet another innovation. It takes advantage of the two- to four-week break in the schedule. Buyers rotate throughout the years, so no one buys the best times and no one the worst. Of course, it might take a decade to get a one-time chance at Christmas or the Fourth of July weekend.

**Joint Ventures and Strategic Alliances.** Joint ventures are similar to partnerships created by two or more individuals. With joint ventures, the individuals are not persons. They are one of several entities. Joint ventures are partnerships of corporations, of existing partnerships, or even of governments. For example, privately owned Radisson Hotels formed a three-way venture with the Russian Ministry for Foreign Tourism and a publicly owned business-center company, Americon. The new entity opened the 430-room Radisson Slavjanskaya in Moscow.

Similar developments in China almost always involve governmental agencies; they own the land. Free enterprises make up North America’s joint ventures. Canadian Pacific Hotels formed such an alliance with Fairmont Hotels and Kingdom Hotels. Of the four members, three were hotel companies and one was an already existing joint partnership. Even players as big as Marriott and Wyndham have united in joint ventures. Marriott’s partner, Mitsui Fudosan, built the Tokyo skyscraper for Marriott’s Ritz-Carlton chain to manage.

Joint ventures are usually financial marriages warranted by rising land and construction costs and ever-larger megadeals. The alliance spreads the risk, but it also taps the capabilities of different organizations. Financial, managerial, operational, and government expertise may not be found in a single company. Gaming management is one such skill. New gaming ventures in Singapore and Macau have recently turned to Nevada expertise to make certain of their success.

**NEW MANAGEMENT PATTERNS**

The era of the small innkeeper and the individual entrepreneur is waning. Costly and risky enterprises facing intense competition require the management talent and capital funding that only large, public companies—hotel chains—can provide.

**Hotel Chains**

Travel evokes the unknown and the unfamiliar. Within that environment, travelers seek a rather personal service—a bed for the night. Since it isn’t possible to test the facilities beforehand, the decision rests on the reputation of the hotel or, more likely, on its chain membership.

Chain-controlled hotels now dominate the U.S. hotel industry (see Exhibit 2–14). Some 75% of all hotels are under the flag of one chain or another. That’s up from 40 years ago, when the figure was about 33%. The momentum is evident overseas as well where chains are replacing the traditional hotelkeepers, individuals and families.

The reasons are simple. Chains bring strengths in site selection, access to capital, and economies of scale in purchasing, advertising, and reservations. Chains attract the best management talent and provide the consumer with brand recognition.

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8The Kingdom Hotels Investment Company of Dubai, which is heavily invested in hotels worldwide, is owned by Saudi Prince Alwaleed bin Talal, one of the world’s wealthiest persons.
20 Hotel Chains: Some Old and Well Known; Some New and Unproven

<table>
<thead>
<tr>
<th>Name</th>
<th>Parent Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>aloft Hotels</td>
<td>Starwood</td>
</tr>
<tr>
<td>Crillion</td>
<td>Starwood Capital</td>
</tr>
<tr>
<td>Disney</td>
<td>Its Own Brand</td>
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<tr>
<td>Element</td>
<td>Starwood</td>
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<tr>
<td>Fairmont</td>
<td>Canadian Pacific Hotels</td>
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<td>Four Seasons</td>
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<tr>
<td>Harrah's</td>
<td>Its Own Brand</td>
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<td>Historic Hotels of America</td>
<td>Referral Group</td>
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<td>Host Hotels</td>
<td>Its Own Brand</td>
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<td>Hyatt</td>
<td>Global Hyatt</td>
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<tr>
<td>Indigo</td>
<td>InterContinental</td>
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<tr>
<td>Loews</td>
<td>Its Own Brand</td>
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<td>Morgans</td>
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<tr>
<td>Omni</td>
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<tr>
<td>Onyx</td>
<td>Kimpton Hotel Group</td>
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<td>Renaissance</td>
<td>Marriott</td>
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<td>Ritz Carlton</td>
<td>Marriott</td>
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<td>Sheraton</td>
<td>Starwood</td>
</tr>
<tr>
<td>Westin</td>
<td>Starwood</td>
</tr>
</tbody>
</table>

Exhibit 2-14 An alphabetical register of hotel chains, some old and some new, that have not been identified in previous exhibits. New brands such as aloft Hotels, Hotel Victor, Hyatt Place, Indigo, and NYLO are featuring “lifestyle alternatives” for Generation Xers. They’re either a really new option, or just a new brand name. (See also Exhibits 2-1, 2-4, 2-12, 2-13, and 2-15 for a full view of hotel options.)

As this chapter has stressed, hotel chains are no longer hotel builders. In fact, the builders may not be the owners. For certain, hotel owners are not hoteliers. So builders, money lenders, and owners turn to the chain.

**Parties to the Deal.** Five different parties are involved in the development and operation of a hotel. That need not be five separate entities. One of the participants could assume several roles. The developer (party 1) sees an opportunity, acquires the site, and puts the plan together. The hotel might be a project of the community. It might be part of one element in a business park or a timeshare in a resort complex. The developer could be the owner (party 3), which would fold the five parties into four identities.

Financing loans are arranged from banks, insurance companies, government agencies, pension funds, REITS, or elsewhere. The financier is party 2. Some of the financing might come from one or more of the other parties. Mezzanine financing is a secondary source of borrowed money so it carries higher interest rates. Mezzanine financing is sometimes used as a construction loan. Sometimes it is treated as if it were equity money. If Marriott, for
example, were to be the management company (party 4), it might lend short-term funds, mezzanine financing, to the developer (party 1) or to the owner (party 3).

Party 3 is the equity, that is, the ownership. This party could be any of the others or an individual, a joint venture, a REIT, a public corporation, or a separate entity making a passive investment.

If none of the others are capable of running a hotel, a management company (party 4) will be needed. It is desirable that the management company have a recognizable logo. If the management company (see Exhibit 2–15) is not known to the public, a franchise license is obtained from another company (party 5) that does have brand recognition (see Exhibit 2–16).

Hotel chains (see Exhibits 2–12, 2–13, and 2–14) are likely to be some combination of all five parties. They help with development and financing, hold a piece of the ownership equity, and supply management talent. Chains provide brand recognition and the essential reservation systems.

Consor tia and Membership Organizations. Independent operators are at a disadvantage, struggling against the logos and reservation systems of their chain-linked competitors. Fighting back shifts the issue from “if and when to join” to “how to choose the right organization.” So they, too, have affiliated. Their associations are looser, focusing chiefly on logos and reservations systems. There is some training and advice, but restrictions are fewer and autonomy is greater.

Reservation referrals are cooperative organizations designed to provide only one service: marketing. Centralized reservations, standardized quality, joint advertising, and a recognizable brand with a logo are the limited objectives of most referral groups. This enables the individual property to compete but still maintain its independence.

| Hotel Management Companies |
|-----------------------------|------------------|
| **Name of the Management Company** | **Approximate Number of Properties** | **Number of Guest Rooms** |
| Boykin Management Company | 25 | 6,700 |
| John Q. Hammons Hotels | 65 | 15,000 |
| Interstate Hotels Corporation | 280 | 64,000 |
| Janus Hotels & Resorts | 45 | 10,000 |
| Lane Hospitality | 20 | 3,500 |
| Lodging | 20 | 2,000 |
| MeriStar Hotels & Resorts | 225 | 45,000 |
| Richfield Hospitality Services | 40 | 11,000 |
| Sage Hospitality Resources | 45 | 8,000 |
| Westmount Hospitality Group | 400 | 40,000 |
| Winegardner & Hammons | 30 | 7,500 |

*aRapid consolidation means values are best estimates. Some companies give different values even within their own Web sites.

Exhibit 2–15 Hotel management companies are not as distinct a class as once they were. Other than size and name recognition, the companies of Exhibit 2–15 and 2–12 are much the same. Although this group is chiefly into hotel management, they also develop, lease, and even own properties outright.
### Representative Franchise Fees<sup>a</sup>

<table>
<thead>
<tr>
<th>Fee</th>
<th>Representative Terms</th>
<th>Alternative Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application&lt;sup&gt;b&lt;/sup&gt;</td>
<td>The greater of $45,000 or $400 times the number of rooms</td>
<td>A lesser fixed amount plus a per-room fee over, say, the first 75 rooms.</td>
</tr>
<tr>
<td>Royalty</td>
<td>4%-6% of room revenue</td>
<td>3% of gross revenue; or a minimum per night, say, $8</td>
</tr>
<tr>
<td>Advertising/Marketing</td>
<td>1.5%-3.5% of room revenue</td>
<td>2% of gross revenue, or a minimum per night, say, 1.50 per room</td>
</tr>
<tr>
<td>Training</td>
<td>0.5% of gross revenue plus cost of attending school</td>
<td>None; franchisee bears all schooling costs for employees sent away.</td>
</tr>
<tr>
<td>Reservation</td>
<td>3% of room revenue plus $5 per reservation</td>
<td>$10 per reservation, or a minimum per night, say, $10 per room</td>
</tr>
</tbody>
</table>

<sup>a</sup> Other possibilities include email costs, global reservation costs, termination costs, accounting charges, and participation in frequent guest promotions.

<sup>b</sup> All or some (90%-95%) of the application fee is returned if the application is not approved.

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**Exhibit 2-16** Hotel franchisors (those who sell franchise rights) charge franchisees (buyers) a variety of fees that total as much as 8-10% of gross sales. Reminder: As room rates rise, so does the innkeeper's dollar cost as a fixed percentage of the higher rate. Franchisees gain access to national reservation systems, which may account for a large percentage of their occupancy.

There is no interlocking management, no group buying, no common financing—nothing but a unified sales effort. Unlike the franchise contract, which is discussed soon, individual identity is encouraged. There is no prescribed limitation on the location or configuration of the building so long as the guest rooms meet standards. That said, Best Western International, the largest of the referral groups, has introduced several prototype rooms.

Best Western International is the best known membership/referral group (see Exhibit 2-12). Each of its 4,250 properties in some 80 countries is individually owned. Members have voting status for the board of directors that operates the association. By maintaining standards, quality accommodations, and fair pricing, Best Western provides the traveling public with consistency among the properties, whose uniqueness reflects the individual ownership that is still maintained.

Preferred Hotels and Resorts Worldwide is a different type of membership group. Its rates are at the other end of the price scale from Best Western. Although both are international in scope, Preferred's membership has been less than 150 hotels. Recently, it created a new holding company, IndeCorp Corporation, with several wholly owned brands. Preferred is now one of those brands. Under IndeCorp's umbrella are other independent brands.
such as Summit Hotels and Resorts, and Sterling Hotels and Resorts. By developing brands, IndeCorp emphasizes its consortium strategy with now nearly 1,000 hotels. The Sagamore Resort (see Exhibit 1–11) is a member of Preferred Hotels & Resorts Worldwide.

Consolidation of the consortia follows the general consolidation movement of the whole industry. Leading Hotels of the World, which had been the largest consortium of the luxury independents, less than 500 members, also began consolidating. They have added the Leading Small Hotels group of 70 hotels and Leading Spas of the World. It is likely that competition may force the consortia to move beyond mere branding to begin managing, even owning, hotels.

**Management Contracts and Management Companies**

**Management Contracts.** A management contract is an agreement between the hotel owner (party 3) and a management company (party 4). The contract is a complex legal instrument by which the management company (see Exhibit 2–15) operates the hotel within the conditions set down by the contract. For this, the owner pays the management company a fee of between 2% and 4% of revenues plus incentive fees based on other values as well: net profits, for example.

Fees are paid whether there are profits or not. Profits, if any, belong to the owners, as do losses. Since management fees are paid whether there are profits or not, big management companies such as Marriott and Starwood have grown rapidly. They have little invested capital and almost no risk. Risk lies with parties 1, 2 and 3. Besides, most contacts provide large incentive fees if the management company hits preestablished goals.

The relationship between owner and management company is not always smooth. Lawsuits arise over the many issues that contracts invariably overlook. One, for example, deals with the revenue the management company earns from selling guests’ names and addresses. Another deals with their rebates from purveyors. As expected, lawsuits are fewer during the up-cycles and greater during the downturns when owners suffer losses. Contract terms favorable to one party or the other reflect the time in the cycle that the agreement was made.

If early in the project’s development, the management company may provide advice on construction, on systems, on financing, and so on. When times were bad, owners accepted many restrictive terms in the contract in order to secure the management company’s services. An improving economy shifts the advantage. Lenders have disposed of their excess hotel inventory, and hotels have turned profitable. Simultaneously, the number of management companies has increased. This tight competition forces concessions from the management companies as they bid for contracts. Owning companies are able to negotiate shorter contracts, less costly fees, and more capital investments from management companies.

**Management Companies.** Management companies are of recent origin in the long history of innkeeping. These professional managers, as distinct from owner managers, emerged and grew important because of three different events. Although the causes varied, the positive impact on the management companies was the same.

Lenders (party 2), usually banks, take control of hotels when owners (party 3) are unable to repay their mortgage loans. Bankers dislike holding physical assets (buildings) so they try to sell them as quickly as possible. Knowing that the resale value of the hotel
is greater if the hotel is up and running, banks hire management companies to operate
defunct hotels.

Event 1 was the Great Depression (1930s), when most of the nation's hotels went
into bankruptcy. Event 2 was the oil embargo of 1973. Without oil, travel shut down
and many of America's hotels fell to the auctioneer's hammer again. In the 1980s, the
whole banking system collapsed partly because the hotel industry collapsed. This time,
the remedy required the intervention of the federal government. Poor times for hotel
owners proved to be good times for hotel management companies.

A pure management company is almost unknown today. Companies like those in
Exhibit 2–15 are not pure plays. They have the same mixed characteristics as their com­
petitors, Exhibits 2–12, 2–13, and 2–14. Consolidation and brand identification have
enabled the better known chains to dominate the management field. The number of
independent properties that look to smaller management companies is declining. At the
same time, there is greater competition from and among the big guys. REITS are another
of those big guys. REITS add another issue. Earlier, the chapter pointed out that REITS were not
legally able to manage the hotels they own. However, under the REIT Modernization
Act, REITS may now own the leasing company. And it's the leasing company that hires
the management company! So a REIT named Host Marriott, now renamed Hosts Hotels,
had Marriott International operating many, not all, of the hotels that Host Marriott
owned.

Leasing (Renting). Management contracts and lease contracts are almost oppo­
site views of the industry's health. One or the other becomes popular depending on the
position of the economic cycle. Leases are popular when times are good.

Hotels once owned the real estate and managed the operation. Owning real estate
takes large sums of invested equity and significant risks from borrowing. As hoteliers
became more sophisticated about finance (1960s), sale-and-leaseback became popu­
lar. The hotel company would sell the building to outside investors. The new investors
would then lease (rent) the operation of the hotel back to the very hotel company that
had sold the the real estate. Since the operation was profitable, both parties won.
The operating companies of Exhibit 2–12 had profits after they paid the lease rent.
The owning company had a fixed flow of rental income with which it could secure
the borrowing. The lease's long and successful history gives precedent to current REIT
arrangements.

Management contracts gain popularity when the industry goes into a slump. The
operating company cannot visualize any operating profits, so it steps back from lease
arrangements. The owning company still has a hotel that needs management skills. It hires
the management company, paying the company a management fee as prescribed by the
management contract. Incentives are paid to the management company if it produces
profits through increased sales or reduced costs.

The dynamics of hotelkeeping allow for a variety of possibilities. Some hotel com­
panies own and operate hotels. Sometimes, it is as a joint venture. Some hotel companies
manage for a fee but contribute some of the equity (ownership). Some hotel
companies just manage. Franchising is another option.

Franchising. Franchising is not a new idea, nor is it unique to the hotel indus­
try. Tires, speedy printers, diet clinics, and many other industries (hamburgers) have
franchises. A franchise buyer (called a franchisee) acquires rights from a seller (called a
franchisor). Those rights give the franchisee exclusive use (a franchise) of the name, the
product, and the system of the franchisor within a given geographic area. Buying a franchise enables the small businessperson to operate as an independent but still have the benefits of membership in the chain. The membership comes with costs.

The franchisee pays a variety of fees to adopt the name and trademark of the franchisor (see Exhibit 2-16). In addition to an initial signing fee, the franchisee pays so much per room per night throughout the life of the contract. But that's not all. The franchisee also pays a rental for the company sign, a fee to access the reservation system, and a per reservation fee for each room booked. In addition, the franchisee buys amenities from the parent company in order to get the franchise logo. Extra fees are charged for required training and for participating in the frequent guest program. Competition has encouraged some management companies to pay all or part of the owner's up-front franchising costs in order to win the management contract.

Franchise fees have almost doubled during the past 20 years. They now represent 9% to 10% of room sales—some 8% of sales from all sources. The impact is significant because net earnings from all departments is only in the 20% range. (Franchise expense fees are already included in that calculation.) If net earnings are only 20% of sales, franchise fees represent a good chunk of operating costs. On the other hand, brand affiliation may add 10 percentage points to occupancy and $20 or more to ADR. That, too, is a significant amount.

With those fees come a variety of services. How many and which services depend on which franchise is purchased. The most extensive franchise might include feasibility studies, site selection advice, financing support, design and planning, mass purchasing, management consultations, advertising, and systems design. The central reservation system, discussed in Chapter 5, is the major reason by far that franchisees sign up. Estimates place the number of reservations coming through the system as high as 30% of the chain's total reservations and upward of 50% of all reservations for individual properties.

Fees versus services have split the direction of franchise development. Franchising is growing in Europe and Asia, especially in China as it prepares for the Olympics. Contrariwise, some American hotel owners are dropping their franchises in favor of membership groups. Membership affiliation (sometimes called brand affiliation) has lower fees, shorter contracts, and fewer restrictions. Franchise fees typically cost 4-5 times more than memberships. Moreover, franchisors are among the first with the costly amenity creep that owners must pay for. Still, many owners weigh the costs and buy in.

Best Western International is the oldest, largest, and best known of the brand-affiliated groups. Others—Best Value Inns, Superior Small Lodging and Payless Lodging—are emerging. They now coexist with more senior alliances such as Historic Hotels of America, Budget Host, and Utell.

The Franchise and the Flag. Hotel franchising probably began during the late 19th century. Cesar Ritz—ritzy now means the finest accommodations—gave his name to a small number of hotels whose management he supervised. Kemmons Wilson made the next advance in hotel franchising with the development of the Holiday Inn chain.

Franchising is all about brand recognition. The franchisor delivers immediate brand identity by selling its “flag” to the franchisee. Franchisee and parent company are so alike that guests do not distinguish between them. The physical hotels look identical. It’s the ownership and management structures that differ. The chain (the franchisor) does not own the franchise property, the operator (the franchisee) does. The franchisor does not
manage the property, the franchisee does. If the franchisee elects not to manage, it could hire the franchisor as its management company under a separate management contract. Or instead, it could hire an entirely different management company. So now another party, the franchisor, has been added to the interaction of the developer, the owner, the lender, and the management company.

Each flag denotes a certain type of facility in the buyer’s mind. A franchisee intent on developing long-stay facilities wouldn’t shop for a franchise flag of a budget property such as Holiday Inn Express.

Canceling a franchise contract is difficult and expensive. Franchisees are usually small businesspersons. The franchisor is a multifaceted company whose attorneys wrote the franchise contract. Competition and court decisions have helped balance the scales. Still, tension often exists between franchisees and franchisors. When issues become widespread, franchisees have formed organizations to counter the strength of their franchise parent. That was the source of the Owners Association of Intercontinental Hotels (IAHI), a franchise owners’ group within one brand, Holiday Inn initially. The Asian American Hotel Owners Association (AAHOA) is an owners’ group across many brands. Franchisees often franchise multiple properties with multiple flags.

Among the defining issues are:

1. Defense from competing franchises within the supposedly protected area, especially as consolidation among franchisors puts many heretofore competing brands under one umbrella and on the same reservation platform;
2. Unexpected upgrade demands by the franchisor, particularly when the franchisee sells the hotel;
3. High liquidation damages when the franchisee tries to change flags.

Despite the negatives, buying a franchise flag is equally popular with both large absentee owners and small owner/operators. Branding is essential for attracting the transient traveler who may never come that way again.

**SUMMARY**

Partly because of the industry’s willingness to try new things—its dynamic approach to competition—hotelkeeping opens the 21st century at the peak of its cycle. New products using new marketing techniques are being tested. New ownership patterns are calling for new management structures. Strategic changes such as these require rapid responses and decisive moves to meet worldwide competition head on. Many new flags (brands) are flying even as consolidation shrinks the number of, and grows the size of, surviving hotel companies.

Shifts in the lodging industry take place within the global village, where ideas and innovations move swiftly between continents. Their speed and direction depend, in large measure, on the relative strengths of currencies. Hoteliers worldwide know that name recognition attracts the transient traveler. High fees notwithstanding, franchising is one concept that has jumped the oceans to further consolidate lodging and make it a true global industry.

For now, the inelastic business market continues to underpin the basic business of hotelkeeping. Many
predict that the rapidly growing elastic market of tourism and leisure will soon replace the business traveler as lodging’s major guest profile.

The 21st century will build on the dynamic changes in products, markets, financing, and operations that continue to reshape this ancient industry.

RESOURCES AND CHALLENGES

WEB SITES

http://www.hotelinteractive.com (E-mail newsletter—Smithtown, NY. One source for tracking the dynamics of modern innkeeping.)

http://www.hotelmotel.com (Hotel & Motel Management, trade periodical—Duluth, MN. One source for tracking the dynamics of modern innkeeping.)

http://www.hotelsmag.com (Hotels, international trade periodical—New York; London. One source for tracking the dynamics of modern innkeeping.)

http://www.meetings-conventions.com (M&C, Meetings and Conventions, trade periodical—Northstar Travel Media, Secaucus, NJ. One source for tracking the dynamics of modern innkeeping.)

http://www.hotelsreports.com (Smith Travel Research—Hendersonville, TN. One source for tracking the dynamics of modern innkeeping.)

Web Assignment

Hotel & Motel Management has “The Hotel Franchise Fee Calculator” by HVS International on its Web site.

Select a franchise for your 110-room hotel which has an ADR of $68 and an occupancy of 60%. Make your selection by contrasting two choices from the franchise calculation using two years of comparison and assuming: (1) Every value increases by 2% annually; (2) frequent travelers account for 10% of the occupancy; (3) third-party reservations account for 1/8 of total reservations; and (4) the Internet accounts for 5% of reservations.

Explain the reasons for your choice over the second brand by showing your calculations for both and listing any assumptions that you make.

INTERESTING TIDBITS

- Motels are said to be autocentric, which is a play (pun) on the prefix “auto.” Auto means both (1) the inward self and (2) automobile. So motels emphasize both privacy and anonymity (exterior entrance to the rooms, for example) as part of the guests’ arrival by auto.

- The Sheraton Corporation, which is now the largest brand of Starwood Hotels & Resorts, was the first hotel company to be listed on the New York Stock Exchange (1945).

- A rule of thumb is a general principle based on experience rather than on scientific testing. The “36/12 rule” emphasizes the importance of long-stay/repeat guests. The rule says that 36% of the industry’s room nights come from 12% of guest stays. The growth of extended-stay facilities seems to support this rule.
Challenges

TRUE/FALSE

Questions that are partially false should be marked false (F).

1. Segmentation (breaking lodging into separate segments) is the federal government’s effort to increase competition in the lodging industry.

2. Timeshares are also called by other names, including interval ownerships, vacation clubs, and fractionalis.

3. The hotel’s inclusive tour package (IT) is the same concept as the wholesaler’s tour package, but without the cost and risk associated with transportation.

4. Management companies favor management contracts when the business cycle is up and profits are certain; they favor management leases when the cycle is low and profits uncertain.

5. Lodging depends on two major classes of buyers (guests): the businessperson (an inelastic consumer) and the leisure buyer (an elastic consumer).

PROBLEMS

1. Using the trade press, your own management skills, or Web sites, prepare a list of six amenities, other than those cited in the text, that hoteliers use to attract business. Hint: Start the list with “free parking.”

2. Identify the advantages and disadvantages to the personal career of a student who takes a job after graduation with a Hilton Inns franchise and passes up an offer from Hilton Hotels, the parent company.

3. Why is Best Western International not listed among the large management companies of Exhibit 2-15? After all, Best Western has some 300,000 rooms in its brand! Explain in detail.

4. Someone once said, “If you try to be all things to every guest, you’ll likely end up as every guest’s second choice.” Is that an accurate statement? Why or why not? Answer with special attention to the segmentation of the industry’s product line.

5. A traveler driving along Interstate 36 stops at two different hotels on successive evenings. Explain, and differentiate between, the signs posted by the front desk in terms of the text discussion about ownership, management, franchising, and joint ventures.

   Hotel A: This Hampton Inn is owned by Jerome J. Vallen and Sons, Inc., under license from Promus. Richfield Hotel Management.

   Hotel B: This Hampton Inn is owned by Promus. Jerome J. Vallen, General Manager.

6. Obtain a copy of a management contract from a local hotel, or review a book in the library on hotel management contracts. Discuss three terms (for example, life of the contract, payment, maintenance of the property, or investment by the management company) that intrigue you.
AN INCIDENT IN HOTEL MANAGEMENT

Taken for a Ride
The hotel advertised the availability of free shuttle service. A business guest relied on that information when she booked for a meeting at company headquarters about one mile away. She tried to arrange the trip, only to be told that first priority went to airline employees. (The hotel has a rooms contract with the airline). As a result, she was late for appointments the first day.

The guest complained and was told that the shuttle would be available if she called with a 30–45-minute lead time. On the second day, she did that from the office, but the pickup was never made; she took a cab back. Arrangements worked both ways the other days. On the last morning, she was stunned to learn that the shuttle was leaving in 5 minutes, not between 30 and 45-minutes after her call. She had not finished dressing and had had no breakfast.

Questions
Was there a management failure here; if so, what?
What is the hotel's immediate response (or action) to the incident?
What further, long-run action should management take; if any?

ANSWERS TO TRUE/FALSE QUIZ

1. False. First of all, lodging is highly competitive and the federal government is not a party to any action against the industry. Segmentation is the industry's own action to be more competitive whereby individual companies enter new markets with new products to compete against other brands.

2. True. Renaming timeshares, which had a very poor reputation, was one of the techniques used by the reputable hotel companies, which were entering the timeshare market, to change buyer attitudes.

3. True. The hotel IT package is 100% controlled by the hotel. It is added or removed from availability depending on occupancy projections without the fear of losses from prepurchased travel commitments.

4. False. Just the opposite. Management companies prefer paying the hotel owner a lease rental when profits are expected to be high. They prefer receiving the fixed payment from a management contract when profits are low or uncertain.

5. True. Lodging has two major guest classes, business travelers and leisure travelers. Businesspersons are inelastic buyers. Changes in rates or other circumstances will neither encourage nor deter their visits. Leisure guests are the opposite. They will be attracted by concessions (they are elastic) and turned away by restrictions.