Hospitality Insights

INtel by Hospitality Insights

Your bimonthly supplement digging deep into major hospitality trends

February 2021

Stakeholder Alignment: The Value of the Brands

Table of Contents

Introduction

Relations between hospitality stakeholders, particularly hotel owners and brands, have always been a delicate balance. 2020 has thrown in a whole new level of complexity as all parties were trying to keep their businesses alive. Will lessons be learnt from the pandemic on how to improve these relations?

On the one hand, the crisis has called for more flexibility, and the global brands have been quick to implement measures to support property owners. But perhaps more than ever, the value of the brands and their loyalty programmes in particular is being questioned. Will they need to work harder to (re)gain owners' trust?

On the other hand, the reliability of a strong brand is appealing to owners and guests alike. Conversion brands are attracting attention, and hospitality groups are launching new ones dedicated to new needs.

Julie Rey-Gore,
Content Director, Hospitality Insights

STUDY

Brands must work ‘harder & smarter’

By Katherine Doggrell

The global hotel brands will need to be flexible in their relationships past the pandemic, according to a study released by Knight Frank. The report looked to relief on fees which has supported owners, but also at the ongoing relationships within the hotel stack.

Philippa Goldstein, senior analyst – head of hotel research, Knight Frank, told us: "Whilst there is no compromise on health, hygiene and safety in terms of brand standards, the brands will need to continue to be flexible, unfixing the fixed costs for their owners. Radisson's Individual brand was an intelligent strategic move, particularly for those proven independent hotel operators, wanting to move away from relying on OTAs and benefit instead from an affiliation to a brand and their distribution system – upon entry there are no Performance Improvement Plans, enhanced flexibility and reduced fees, paying per performance – owners have time to see if the brand works for them before a more longer term commitment."

The Individuals brand has a flexible model allowing for short-term franchise agreements of three to five years, with discounted fees and no upfront PIP required, aimed at targeting properties in more rural or destination-led locations.

The study said: "Whilst the global hotel brands have had little option but to be flexible and to support their hotel owners during the crisis, once the sector begins its recovery, the brand standards are likely to be imposed with renewed vigour. Ongoing investment in an asset is deemed critical to ensure standards and brand compliance are achieved.

"Whilst any responsible owner will be committed to investing in the asset, obtaining funds from lenders for any major capex project may well prove more challenging, at least in the short-term. Nevertheless, the well maintained hotels are those likely to perform best during periods of low demand, especially with the heightened expectations of guests in terms of hygiene, cleanliness and safety.

Goldstein added: "During a period of weaker demand and particularly during the recovery, Brands will need to work harder and smarter to ensure they deliver the support and drive enhanced returns to their franchisees and owners. In the short term the brands will need to be particularly focused on driving demand from the domestic leisure market, their distribution systems must work for the owners. As will hotel owners and operators be defined by crisis, so will be the global brands and it is highly likely that weaker brands will disappear and streamlined."

Graham Dodd, managing director, development - UK & Ireland at Hilton, responded: "This year has presented unique challenges, but we know there is pent-up demand for travel and we are committed to delivering our customers evolving needs, and accelerating our innovations. Through our investment in technology, the diversity of our leading brands, our advanced distribution systems, as well as our Hilton Honors loyalty programme, we strive to work harder and smarter. We remain acutely focused on delivering safety, hygiene, personalised hospitality experiences and we are committed to future proofing our hotels to optimise investment return for our owners."

The study also pointed to the value of staying open during lockdowns. For those hotels which were able to stay open during the initial lockdown, providing accommodation for Key Workers, hotel occupancies typically ranged between 20% and 30%.

With analysis showing that for a hotel to breakeven an occupancy of 15% to 25% was required - in conjunction with use of the furlough scheme - remaining open was worthwhile for many hotels.

Moreover, according to a number of operators, staying open enabled them to gain a head start over their competitors when the first lockdown ended, having had the experience of how to adjust to the new operating requirements and an understanding of where staffing and cost savings could be made.

Operating on a skeleton level of staffing enabled a resilient workforce to adapt to a new way of working. A re-invigorated and energised salesforce focused on building a base level of occupancy, but also importantly succeeded in building a greater level of forward bookings for once the lockdown ended. This enabled a trading hotel to reach a higher level of occupancy much quicker than its competitors which had remained closed.

Insight: Will the brands learn their lesson from the pandemic, with grumpy owners taking a look at the cost of keyless entry systems and wondering where the cash was going? It seems unlikely, but there had already been some nibbling on the edges, which suggest that, slowly slowly, flexibility may well be on the way.

The good news for the brands was that the future wasn't all going to be economy brands and their awful low fees. Goldstein said: "There is still corporate demand out there and people are willing to trade up and pay more for the right product - with space, a Covid-safe location and experience all becoming increasing important drivers for corporate bookers. In previous downturns people tended to move to the budget end, but there is demand for a more expensive product - hotels have the opportunity to capture greater incremental spend per guest."
The issue for the brands will be to hold back on trying to grab the biggest slice of the pie.

PERSPECTIVE

Hotel loyalty reward points under scrutiny: The hotel owner's (franchisee) perspective

Reform Lodging

Hospitality Insights | hospitalityinsights.com

Hospitality industry think tank Reform Lodging examines hospitality franchisor loyalty rewards programmes, specifically focusing on the rewards points scheme and highlighting areas that warrant further scrutiny from local, state, and federal agencies in the United States.

Historically, rewards points have been a useful perk for those travellers that spend frequent nights away from their homes throughout the calendar year. Whether they travel for leisure, business, or a mix of both, hotel brand loyalty programs, entice guests by reimbursing them with points for every dollar spent on hotel stays. These points are redeemable for future stays at a generally large swath of hotel brands under the parent company umbrella. There is no question that the rewards points system spurs further guest travel spend and breeds brand loyalty amongst travellers. When most hotel owners and franchisees dig into their property metrics, they will find that loyalty programme members make up a sizable chunk of their transient guests. The front-end economics of earning points and redeeming them for future stays makes sense. It certainly supports the brands and the consumers, but how much do hotel franchise owners really benefit from these points? Does the points programme in reality hurt hotel franchise owners? Do the points give hotel brands an unfair advantage, over the franchise owner whose hotel properties are responsible for the service delivery, and ultimate transaction that takes place? What happens with expired or unused points?

Loyalty points programs have not received their due scrutiny for several key reasons; namely the complexity of their overall structures, the cleverly cloaked façade of these programmes and associated fringe benefits for end-users, the time dilemma hotel owners face with their multitude of operational and ownership related issues, and generally a feeling that this area is less critical versus other more pressing topics. Owners need to understand that loyalty points programmes deserve a prominent position as an example of how hotel franchisors exhibit one-sided behaviour to benefit themselves from the backs of their franchisees. Loyalty points are earned and redeemed by the guests from stays that take place at local franchised properties. The overall objective of rewards programmes is to recognise and acknowledge loyalty, which happens when a guest has consistently satisfactory quality of stays at franchised hotels. They are not loyal to the C-suite or upper-level management of major hotel brands; guests generally would not know who is presiding over these companies nor would that factor into their decision making. However, guests in many instances develop relationships with hotel managers and owners who have made themselves available to them, in the spirit of providing service excellence. For road warriors and frequent travellers, franchised hotels become their home away from home. Hotel employees and team members become their extended family. The description of front-line workers applies to hotel and lodging employees, who even through a global pandemic, have worked tirelessly to ensure that guests are taken care of. It is this dedication and hospitality spirit that serves as the litmus test for breeding genuine loyalty.

This begs the question then, if reward points are earned & redeemed at franchised hotels through transactions which physically occur on the franchisees' premises, are the hotel owners entitled to receive greater reimbursement from point redemptions? When a guest for example redeems a full night's stay solely on points, 16,000 to 20,000+ points typically change hands. Is it fair then, for a hotel to receive the customary $30 in compensation from their hotel franchisor, for a stay that is worth $100+? What happened to the difference? Who incurred the costs associated with this guest's stay? What kind of business environment is the hotel collectively tolerating where reimbursements for their efforts lead to a net loss after expenses? When a guest's points go unused and expire, what happens to those points? Who "owns" those points if the transaction occurred on the franchisee owner's premises? Doesn't it make sense that maybe the hotel should have more skin in the game and be the rightful recipient of points that go unused? Thinking further, if the hotel franchisors are responsible for remitting rewards night compensation and hotel owners have no control over these monies, are they making local municipalities whole by taking responsibility for remitting the right amount of local taxes? Not only are small business hoteliers hurting by the significantly reduced points compensation, but local municipalities are also taking a loss by not being reimbursed their fair share. A closer study into this existing structure would be worthwhile to validate that what seems on the surface as a fair and just program, might not be. Hotel franchisors may have more liability than previously thought.

Hotel franchisors have additionally started offering points + cash packages to guests, where they can pay a portion of their hotel stay with points that they have accrued allowing them to pay the balance via cash. With this system, hotel franchise owners are again left short-changed and get reimbursed for these reservations as if the entire reservation was booked via points; a nominal, $30 or less. These programmes, under the guise of being advantageous to guests give all other stakeholders namely the owners, local municipalities, and state coffers a less than desirable deal.

The example below shows a very conservative overview of potential losses to the state of New Jersey due to hotel franchisors not remitting appropriate sales taxes, occupancy taxes, and potential municipal taxes from their reimbursements to hotel franchisee properties. Over $2.4mm in annual losses to the state of New Jersey, due to reimbursements being well below market rate and the lack of remittance on part of franchisors.

Reward Nights Losses Per Annum in New Jersey

Total Franchised Hotels	987
Avg Monthly Point Redemptions Per Property	20
Monthly Total Point Redemptions	19,740
State Average Daily Rate	$140
Monthly Loss of State Sales Tax (6.625%)	$183,089
Monthly Loss of State Occupancy Tax (5%)	$138,180
Monthly Loss of Municipal Tax (3%)	$82,908
Total Monthly Loss	$404,176
Potential Annual Loss	$4,850,118

Applying this math to franchised hotels in states across the country it is obvious then that the real deficit is in the hundreds of millions of dollars; funds that could be used for local and state infrastructure improvements, increasing employment and other job creation endeavours, and enhanced state tourism marketing spend among other budget items.

Possible Solution(s) & Conclusion:

Hotel franchisors, like hotel owners, faced liquidity headwinds in the Spring and Summer season of 2020. However, the similarities ended very quickly. One of the methodologies that hotel franchisors employed was to pre-sell points to shore up their liquidity positions. Major hotel chains started pre-selling points to raise their capital reserves. One in particular was able to raise nearly $1 billion through this process! What were these funds used for in reality? Franchised hotels certainly did not see any substantive benefits from this. Hoteliers need to understand this topic and raise more questions about the entire loyalty rewards scheme. Our operating expenses continue to increase year over year, but this is not taken into consideration when points are redeemed at our hotels.

There is no plausible explanation for being reimbursed 30 cents or less on the dollar after being responsible for the guest's well-being, service delivery, quality of stay, and ongoing operational costs. Did any "asset-light" franchisors think that perhaps their franchise owners needed more relief during the onslaught of the pandemic, and beyond? How much of the billions of dollars raised by franchisors who touted liquidity positions which would keep them afloat in a "zero occupancy" environment is profit for corporate shareholders if 30 cents or less on the dollar is given to hotels for rewards points transactions?

Potential solutions and benefits include:

- Reward points redemptions being made to franchise hotels at or near full market average daily rate (ADR) amounts including those for points + cash or other loyalty programme related guest incentives.
- Dedicating a portion of redemption amounts to localised tourism marketing efforts and causes to include county destination marketing organizations (DMOs) or visitors' bureaus where the hotel(s) are located for meaningful and substantive franchise marketing which will truly benefit their franchisees.
- Ensuring local, municipal, and state taxes are being appropriately remitted by franchisors to enhance funding for state-level programs and initiatives.
- Bridging the hospitality employee wage gap, by offering more competitive wages to our front-line team members through greater reimbursement from hotel point redemptions.
- Some portion of expired and unused points should be sent to destination marketing organizations (DMOs) for localized tourism marketing efforts to further enhance "brand marketing" efforts. This would be more advantageous to hotels, especially those in secondary and tertiary markets, rather than the larger national campaigns that franchise hoteliers ultimately contribute to.
- Since reward points are earned by guests at the property level and hotels in turn end up realistically "paying" for these points to be reimbursed to guests, once points expire, they should be remitted back to the hotel where the points transaction initially originated.
- End the practice of charging brand related fees on rewards points transactions.
- End penalising franchisee hotels for not being able to sign up enough new members, which really is hurting the franchisee bottom-line. These are hidden expenses not identified in the FDDs

About Reform Lodging Inc.

Reform Lodging is a non-profit hospitality industry think tank and owner advocacy organization fuelled by the youthful exuberance of millennial hoteliers, backed by the wisdom of industry luminaries. The organization was formed in April 2020 by hoteliers, Rich Gandhi, Sagar V. Shah, and Dharam Goragandhi. The Old Bridge, New Jersey based group has over 1,900 members from across the United States and overseas.

INSIGHT

Conversion brands key to driving pipelines

By Katherine Doggrell

Conversions have been the key focus for growth in the hotel sector during the pandemic, as development slowed, restricting pipelines. The sector has seen conversions from independent hotels as well as branded sites, with efforts from some operators to be as cost-effective as possible.

The budget sector has seen the biggest drive to conversions, with Choice Hotels International and Wyndham both reporting growth in the area. At Choice, in the year to the end of September last year the company awarded over 230 new domestic franchise agreements, nearly 70% of which were for conversion hotels. In the third quarter it executed over 80 domestic agreements, of which nearly three quarters were for conversions. Historically the group looked to conversions for 25% of its pipeline.

At Wyndham, conversion signings were up 30% domestically and 60% internationally sequentially in the third quarter, with CEO Geoff Ballotti commenting: "It's going to be a ways away until it's going to peak or plateau and whether that's going to happen in the fourth quarter of this year or the first and second quarter is up for anybody's guess."

Accor has seen growth in conversions, which now account for 43% of its opening pipeline over the next five years. Camil Yazbeck, SVP, head of development - Europe, Accor, told us: "Going forward, Accor will also be actively reaching out to independent hoteliers around the world where we see the opportunity to develop partnerships that encourage the growth, sustainability and improved operations of both parties.
"As Covid-19 continues to impact markets globally, the global hospitality sector will be affected in 2021 and likely for a few years to come. Amid these conditions, Accor has received strong and growing interest from independent hoteliers and a variety of owners, who want access to Accor's strong platform at a low investment cost to achieve a better ROI.

"Some examples of recent conversion deals include Mondrian Shoreditch London (rebranded from The Curtain Hotel & Members Club), Berd's Chisinau MGallery Hotel, 10 Travelodge hotels across the UK to rebrand under ibis Budget (AGO deal) and Carton House, a Fairmont Managed Hotel."

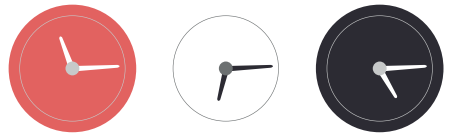
Looking to the global concentration of conversions, Yazbeck added: "Europe is a particularly strong region for conversion growth. Six of 10 hotels across Europe are unbranded, presenting many great opportunities for Accor as market leader in the region to forge mutually beneficial arrangements with independent hoteliers and third party operators. The key is to ensure these arrangements support the growth, sustainability and improved operations of both parties.

"Pre-Covid-19, Accor was already experiencing growing interest in our portfolio of conversion brands. Covid-19 has definitely accelerated this activity. While the associated economic and business impacts of the pandemic are still being understood, it is likely the hospitality sector will be impacted for several years. Hoteliers are acting quickly to lessen this impact, converting their hotels to these Accor brands with simplicity and cost efficiencies. Accor's Development and Design & Technical teams are mobilised globally to meet this demand and expertly convert hotels fast.

Yazbeck said that the company was experiencing conversion interest from both already branded and independent hotels; mainly influenced by each market's landscape.
He said: "Demand from already branded hotels is prominent where the existing brand is smaller and local, therefore not benefitting from the global scale and brand awareness of Accor. However, we are also seeing this with more recognisable brands, for example the rebranding of 10 UK Travelodge properties as ibis Budget brand in early 2021.

"Independent hotels are of course prime for conversion, particularly in Europe where 61% of the market remains unbranded. Countries such as Russia comprise mostly independent hotels and while they may have been hesitant to join a global hospitality group in the past, Covid-19 has highlighted the benefits Accor can bring in providing support and driving revenue."

Wariness over conversion costs remained an issue for owners. At Magnuson Hotels, CEO Tom Magnuson told us: "We are the only global brand which doesn't require PIPs, just a minimum review score of 3.2 to 3.5." He added: "Right now with lockdown, many owners have furloughed staff, don't have marketing help, and don't have the time or the capability or the expertise to go out there and rebuild their distribution, to get all the logs on the fire for the big match. We would be the people to choose to help - because hotel owners don't have to pay us to get the fire started."



The group waives all conversion fees, including start-up fees and technology outlays.

Magnuson said that the brands had only becoming stronger during the pandemic, commenting: "This is an interesting time to look at independents who are considering whether they want to be branded or with a really strong affiliation platform."

Looking at the events surrounding the Travelodge estate in the UK over the summer, Magnuson said: "One of the key aspects we look at in the local marketplace is the proper positioning of the hotel.
"UK hotel owners are experienced and they continually renovate. Where we're very successful is looking at hotels which are incorrectly positioned as economy hotels when they should be midscale hotels. In a stabilised environment the best the hotel can do is a high occupancy, low-rate strategy, which burns out the property and has high labour costs.

"What we generally do is convert branded properties from an upper-economy brand to a midscale product, earning another £15 of average rate."

The sector has seen the launch of news brands aimed at conversions. At Radisson Hotel Group, the company has launched Radisson Individuals, giving independent hotels and small chains access to the group's platform.

Federico J. González, CEO, Radisson Hotel Group said: "Joining Radisson Individuals is an ideal first step for individual hotels with strong service scores who wish to remain independent or may be considering transitioning to one of our successful core brands in the future. The new brand is also a strong proposition for local and regional hotel brands seeking to explore additional distribution channels and co-branding options."

Accor too has been looking to a new brand. Yazbeck said: "Accor is seeing a particularly strong uptick in conversion interest from independent midscale hotels. As midscale is the most crowded of market segments, it is important Accor demonstrates a high degree of flexibility to attract these hoteliers. In response to this demand, we have imminent plans to expand our conversion brand portfolio in the midscale segment and offer an unprecedented level of flexibility to owners. Stay tuned!"

Insight: The flight to brands is something common to a downturn, but many of the operators commented that, in the early stages of the pandemic, that they were not seeing quite the shift that they had expected. Which was a great shame for their pipelines.
As stress has increased, the numbers have started to tick upwards and, as we have seen at Accor and Radisson, it's been worth getting the brand designers out of bed for.

But a brand is not just a matter of distribution. As Yazbeck said: "It is also worth noting that in 2020 we experienced an uptick in signings where owners changed brand close to construction completion or took on a brand for valuation purposes." Much as the guest seeks the reassurance of a brand, so too does the lender.

STAKEHOLDER ALIGNMENT

Hotels owners and brands learn pandemic cost lesson

By Katherine Doggrell

The hotel sector is likely to look leaner in the future, as cost-cutting lessons learned in the pandemic stick. Owners have already noted savings made by the brands, which it was hoped would be permanent.

On Host Hotels & Resorts' third-quarter earnings call, CFO Sourav Ghosh told analysts: "Marriott has actually restructured and reduced above property shared services, for sales and marketing, revenue management and IT and are right now working towards reductions of their programme Shared Services fees for the following year.
"For this year, Hyatt has also reduced the fixed component of their above property IT costs by 15% and chain marketing fees by as much as 50%. And moving forward, they're really committed to making their fees more variable, so that the cost is actually tied to exactly what you were talking about the value proposition to the owner."

Looking at hotel performance in China, which was currently operating at the level close to the pre-crisis period, with occupancy down 10% to 15% on the year, before the outbreak, Michael Grove, managing director, EMEA, HotStats, told us: "There have been discussions regarding the trend in the hospitality industry that leaner hotels will be opening in the future. There is early evidence coming from China showing that this might be the case for the undistributed departments, and undistributed payroll cost in particular.

"Admin and General and Sales and Marketing labour cost on a PAR basis decreased significantly at the height of the pandemic and started steadily increasing from April onwards. However, in the last three months, these costs have stabilised at a level of over 15% lower than last year (before the outbreak).

As for Property and Maintenance labour cost, the trend is similar even though the variance between last year's (pre-pandemic) and recent three months is at about -10%.

"We can already see a similar trend emerging in Dubai, where the occupancy returned to over 50% in November, however, undistributed labour costs are still far behind pre-pandemic levels (ie. 40-60% lower than pre-crisis levels)."

Looking at other expenses in undistributed departments, Grove described them as having been "steadily increasing since February and now reaching the pre-pandemic levels. Except for S&M expenses still showing 30% variance vs last year, most likely due to the marketing fee." In terms of operating costs, Grove said that at the beginning of the Covid outbreak the group had seen "a sudden spike in the costs of operating supplies (on a per occupied rooms basis), i.e. cost of servicing the guests and cleaning hotel bedrooms. This trend was apparent across all regions: Asia Pacific, Middle East and Europe. Hoteliers were challenged by the new health and safety guidelines that had to be implemented. As it turned out, the increases were temporary (the trend lasted around four to five months), and now we see the costs coming back to the pre-crisis levels. It seems that the Covid related measures have been offset by operational efficiencies.

"Similarly, the early data from China is showing us that the payroll costs (on POR basis) in distributed departments have now stabilised at a similar level as before the crisis."

As both owners and operators looked to lower costs, there were concerns around increased spend on new technologies.
Kevin Edwards, PnK People's managing director, commented on the growth in the use of technology, which had accelerated during the pandemic. He said: "My role is to make sure that owners get the best value from technology, and make sure that the owner gets the most amount of money.

"There are two angles: one is operations - are they using systems to reduce headcount or make their business provisions more streamlined? The second is whether they are paying above market rate for what they have.

"I talk to them about stakeholder alignment. As an owner their objectives are very different to the operator. The owner has a very specific objective in terms of making money and getting out; whether that's today, tomorrow or in 20 years' time. The operator has a finite agreement, wants to run things efficiently but none of them carry the passion of the exit, they're there to service the contract for a fixed fee. A little bit extra if they do well - but is everybody aligned? Probably not."

Insight: The bottom line has been the only line worth anything during the pandemic and it has not been as predictable as one might hope. Beleaguered owners have still been faced with bills, but no guests to pass them on to and there are fears that the brands have some new costs up their sleeves as guests return.

The brands have not been able to claim any greater a time, with head offices shedding staff and fees not rolling in.

The hope is that the two will have learned to work together to the efficiency of all by the time travel restarts.

Hospitality Insights

Content with Purpose