THE GREAT BALANCING ACT:

HOW HOSPITALITY BRANDS CAN MANAGE PEAKS AND TROUGHS DURING TURBULENT TIMES

SEPTEMBER 2023

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INTRODUCTION

September 11th, the Great Financial Crisis, an Icelandic volcanic eruption, SARS, Covid – those are "just" the global crises that have disrupted the hospitality and wider travel industry in the last 20 years.

Add to that the numerous more localised disruptions, such as war, hurricanes, strikes, IT failures, snowstorms, etc., and you wonder how any hospitality operator has managed to stay in business.

Just a few years ago, the world came to a collective standstill. For industries like hospitality, that standstill was especially and painfully pronounced. Every operator clung to the hope of a 'post-pandemic bounce back' and now, it's a reality.

Obviously there have been plenty of failures along the way. What (aside from deep pockets and strong nerves) unites those that have managed to prosper? What can we learn from them?

What happens the next time the hospitality and wider travel industries are faced with a new and different crisis? Of those that have survived the past 20 years, many have done so by an extremely narrow margin.

Having led transformation projects for multiple global hospitality brands over the years, C-Squared Consulting has developed the approach required for long-term success in three parts: 'Balancing the Books', 'Investing in Data', and 'Playing the Long Game.'

CURRENT OUTLOOK

The global travel market has indeed bounced back strongly since the days of the pandemic. According to data from Skift, in April 2023, travel surpassed its 2019 volume for the first time.

46% of European hoteliers believe they're on track for 2023 to be the best year ever for revenue.

"Despite rapid growth and a stronger than expected rebound in demand in 2022, recovery in the UK hotel market is set to stall in 2023 in the face of continued volatility of trading conditions and rising operational costs, according to PwC. But, as the PwC UK Hotels Forecast 2022-2023 reveals, there are diverging fortunes for hotels in London and those in the UK regions.

Revenue per available room (RevPAR) in London, in real terms, is forecast to reach between 101% and 105% of pre-pandemic levels by the end of 2023. However, in the regions where GDP growth - which is forecast to fall close to zero in 2023 - is a stronger driver of UK domestic corporate and leisure demand, RevPAR is more uncertain, reaching between 85% and 98% of pre-pandemic levels by the end of 2023 in real terms."

This year, despite economic headwinds and fears of a recession, the hospitality industry continues to defy expectations. Market performance has surpassed other industries like technology and retail, with the gap widening in the second half of 2022.

Add to that the fact that RevPAR growth has exceeded GDP growth during the current economic cycle, and it is clear that 2023 should be a good year for the hospitality sector (World bank database, US FRED, Cushman & Wakefield).

SOURCE: SKIFT RESEARCH STATE OF TRAVEL 2023

CURRENT OUTLOOK

Several factors contribute to the optimism of the industry, including the recovery and strong demand for leisure and business travel, the re-opening of China, and the rise of the digital nomad.

This is promising news for hospitality operators, provided they navigate the landscape skilfully and follow prudent strategies. Embracing adaptability and fostering a forward-thinking approach are pivotal for enhancing resilience in anticipation of forthcoming challenges – whether we will be able to see them coming or not.

McKinsey recently collated and published insights around what the future of hospitality will look like, but what is lacking is clear, practical guidance for operators.

Considering the lack of comprehensive guidance, here is a helping hand to steer hospitality operators in the right direction.

PART I: BALANCING THE BOOKS

In the short term, find the right balance

This is all about balancing the actual and metaphorical books. Here are a number of things that boards and management teams can consider and implement in the short term:

Diversify your geographical spread

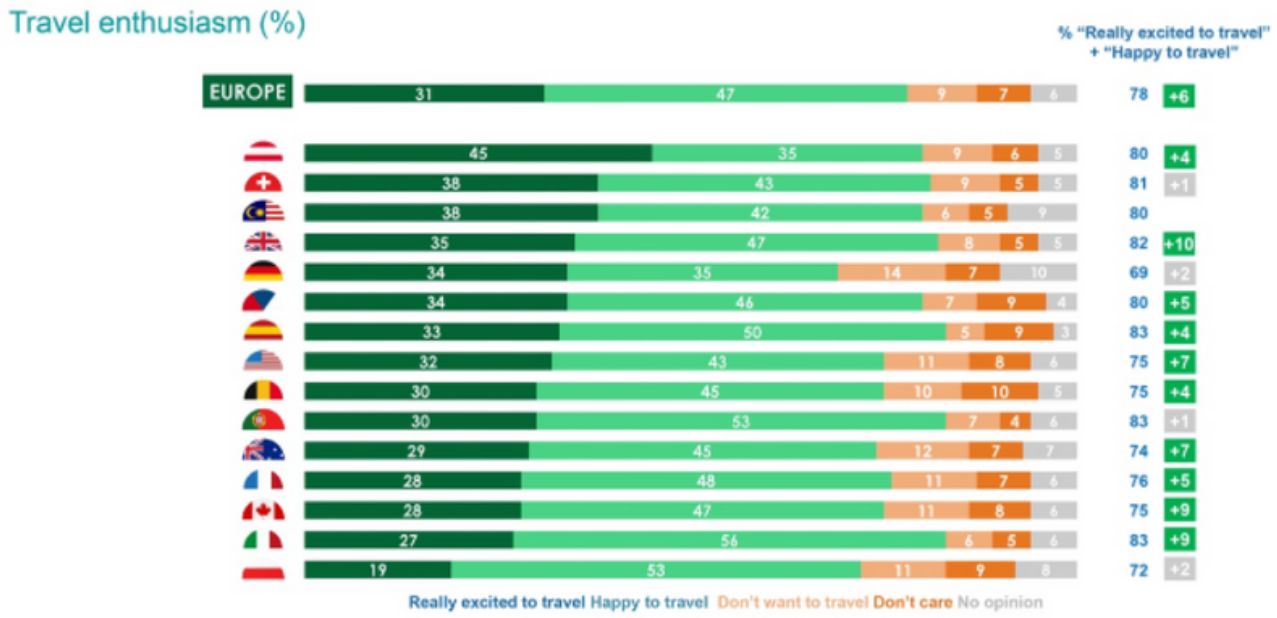
As tempting as it may be to fill your hotel(s) with only the highest yielding foreign tourists, what happens when they can no longer come, because the borders may be closed by a pandemic?

Having a loyal local following who may only visit for a dinner or spend the occasional night could be your saviour when the proverbial next hits the fan.

The opposite is also true – with staycations losing popularity this year, and demand for international travel growing across all geographies (as evidenced by Europ Assistance's annual Holiday Barometer) those brands that banked heavily on the staycation boom last summer are now finding their inventory going stale and having to discount heavily. It is essential to ensure that the eggs are not all in just one basket.

Balance groups with individual travellers

The same logic as above applies – when the corporate audience suddenly stays away in the midst of an economic downturn, with their travel budgets replaced by Zoom, you will need to rely on the individual travellers.



SOURCE: EUROP ASSISTANCE/IPSOS HOLIDAY BAROMETER 22ND EDITION

However, if you have failed to cultivate them over the years, as looking after groups is easier from a service and operational point of view, then these individuals won't return when you need them.

Have a great offering to the local community

It needs to be fresh and change often enough to keep giving the locals a reason to visit. Regular events programming with live music, or performances by invited chefs, can be a good draw. Consider collaborating with local businesses for events (e.g., attractions, vineyards, bakeries, etc) to increase your hotel's exposure, generate marketing opportunities, and attract new loyal customers. You can also develop informal loyalty schemes for local regulars – for example, throwing in the occasional complimentary bottle of wine.

A place that is buzzing is one that entices people to come back, "to see and be seen". The Hoxton hotels were among the first to truly tap into this lifestyle feeling and cultivate a community.

Find the right balance between short and long lead time bookings

Of course, long lead-time bookings tend to come at lower rates than the room sold to Mr & Mrs Lastminute, but at least there is now a base from which to yield better rates for later bookings.

Be wary of offering too many discounts

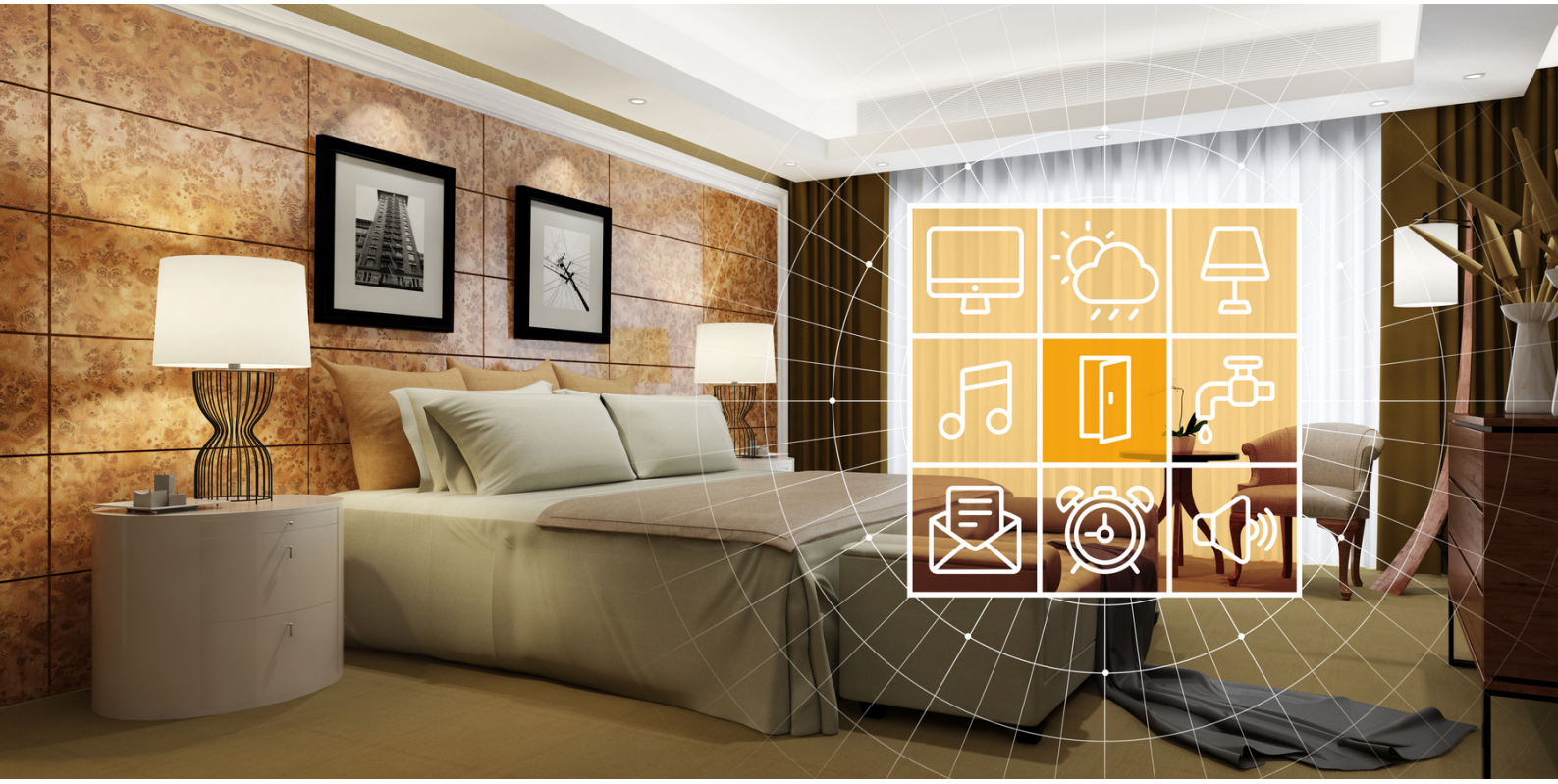
We all know high street retailers that are constantly sending out offers and promotions. The result? People no longer buy at full price because shoppers know they just need to wait a little longer for another offer to come along. The same is true in hospitality – if you are always appearing on discount sites, or constantly emailing out offers, guests will not book unless they can secure a deal.

A better strategy when there is a need period is to create packages, either by bundling the room (e.g., with a flight) or by creating your own in-house packages, e.g., "stay 2 nights and get a complimentary spa treatment and round of golf." It is still discounting, but your headline rate will stay intact, and your competitors, using rate-scraping tools, will be less likely to undercut you.

Make sure you are not constantly closing out the entire hotel for exclusives

Weddings are good business, but if your hotel is closed for most weekends during the summer, then you are no longer on people's itinerary, and agents will no longer attempt to book their guests with you.

For all of the above to work, you need good data, good technology, plug-ins into the various global distribution systems (GDS) such as Sabre, Amadeus, etc., and most importantly, the people who understand these. You also need a Board that understands these dynamics and asks the right – challenging – questions.



PART II: INVESTING IN DATA

Data wins every time

In this rapidly evolving digital landscape, operators across various sectors are recognising the importance of investing in their digital footprint to meet the shifting expectations of their customers and unlock opportunities for growth. Hospitality is no exception.

Whether you are a Travelodge or a luxury hotel, you need to be able to understand what motivates your guests and what they value about their experience, so you can keep them coming back for more.

Knowing who your guests are should be straightforward, yet many hospitality operators only have a vague notion of how many guests they have had staying in any given period, who they were, how many times they visited, and where they were from. Let alone why they came to stay, or whether they enjoyed the experience and are likely to come back.

This may sound surprising to people outside the hospitality industry – after all, these people slept in your beds – but consider the types of guests who are coming. A wedding may have 50 guests but only one couple block-booked for them using their own name and email. Similarly, with corporate groups booked by one PA.

If your guests booked through one of the many online travel agencies (OTAs), you won't even obtain their email address unless you actively solicit it while they are staying on property. Add to that the fact that some guests may be part of a group for their first visit, but then return for a leisurely weekend using their personal email, and you may not even be aware that they are the same person.

What to do:

Train your staff to collect emails at check-in and obtain marketing permission so you can try to entice that OTA booker back to your hotel without paying 15+% commission.

Alternatively, use an online check-in tool such as Aeroguest, that also lets you capture guest marketing consent, as well as being a clever tool for ordering room service, paying the bill, etc.

Make sure your CRM system is up to snuff and able to intelligently merge and purge all those guest records with multiple profiles in your property management system (see above). Some of the more recent hospitality specific CRMs do this quite well, e.g., Revinate.

For those who are more advanced in their tech journey, invest in a data scientist who can build a data lake that pulls data from all aspects of your operation, including your restaurants, spa, golf courses and wherever else you collect guest data. It enables you to build rich customer profiles around your guests' preferences and create relevant and targeted messages, as opposed to spamming them with each new offer launched.

Must-have technology

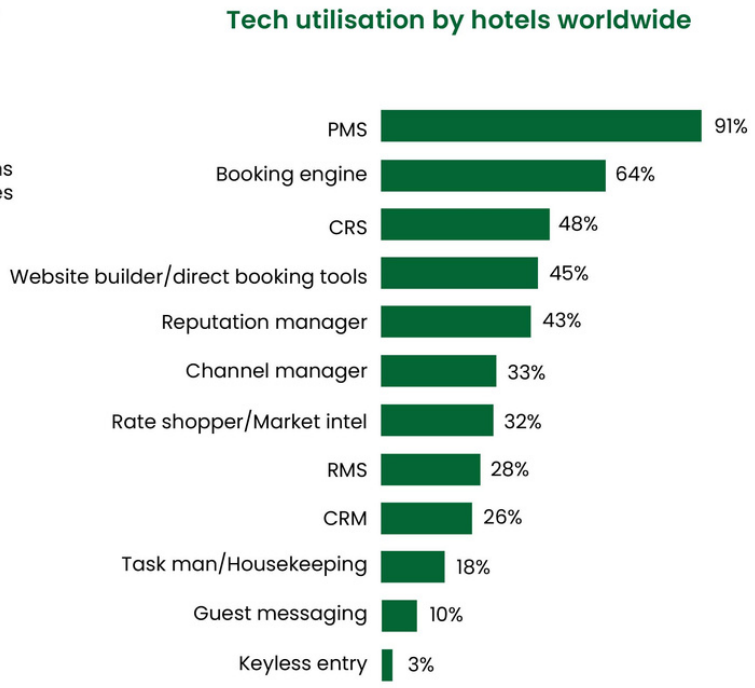
According to McKinsey, Covid accelerated digital transformation by ten years. Almost three quarters of consumers are willing to pay a slight premium for better technology to support their stay, according to a recent study by Hotel Technology. However, the hotel industry is notoriously slow to adopt new technologies.

73% of travellers want to perform actions such as booking reservations, checking in, and ordering room service on their smartphones, which aligns with the study's finding that 96% of hoteliers are implementing technology that helps to facilitate a contactless experience (Oracle).

Obviously, a decent Revenue Management System (RMS) and CRM (see above) are important. As is a property management system (PMS) with easy integrations to many new emerging technologies via open APIs, e.g., Mews. A housekeeping app that is integrated with your PMS and a guest messaging app can be useful add-ons to capture guests' issues and complaints. Also, their particular preferences, e.g., "oat milk and antiallergenic pillows", adding them to the guest profile in order to prepare the room just as they like it for their next stay.

MOST TECH STILL VASTLY UNDER PENETRATED

Most hotel companies have taken a step towards accepting technology as an enabler of efficient operations and seamless guest experiences, but the sector continues to have a lot more unused potential.



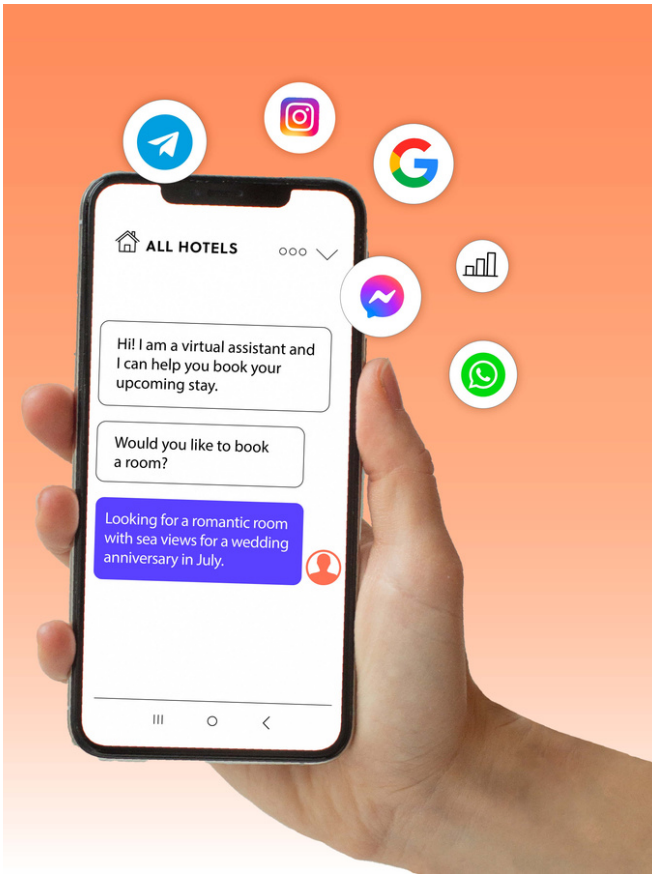
SOURCE: SKIFT RESEARCH STATE OF TRAVEL 2023

Apps like these are now rather common and offered by Sabre's Nuvola, Knowcross and HotSOS, among others.

However, at the end of the day, it's about the people who use the data to make decisions. No RMS can tell you where your guests should be coming from, or what the right ratio is between individuals and groups for any given time period. Not even ChatGPT, though generative AI will very likely have a role to play in the future.

That's why it is important to set a strategy top down and agree this across your entire organisation.

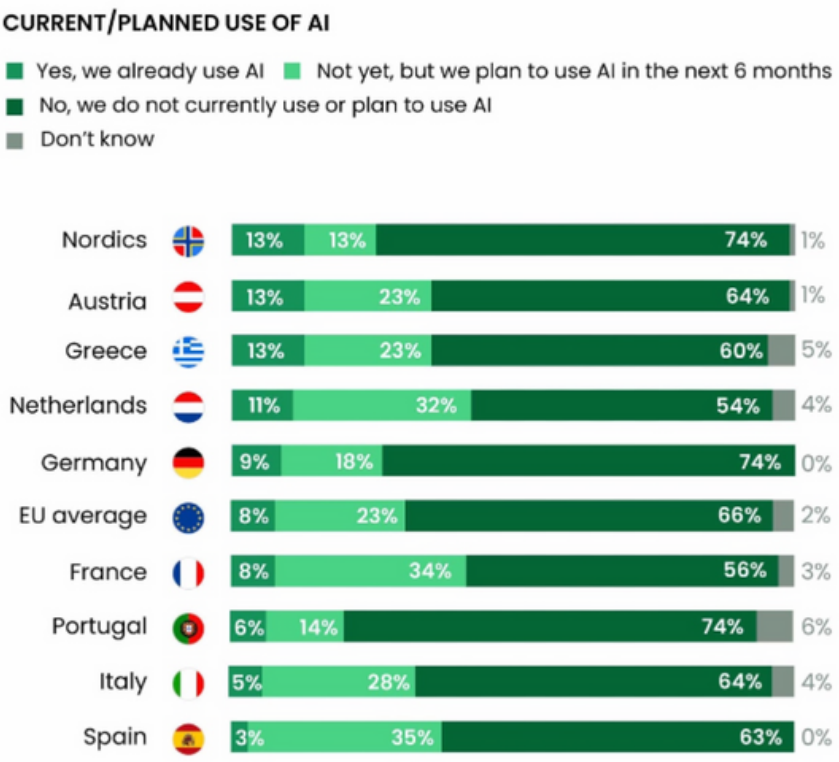
Everybody must understand and buy into why the big coach full of high paying long-distance tourists on a Friday night may be a good thing in the short term, but longer term, your sales team might be better advised to decline that business and entice more loyal local guests instead.



The role that AI can play in hospitality

The Booking.com-Statista European Accommodation Barometer reveals that only 8% of European businesses currently use AI technology, while 23% plan to use the tools in the next six months. Two-thirds have no plans to use AI in their businesses.

The hospitality industry is often regarded as slow to adapt to change – largely handcuffed by legacy systems that don't easily interact. Today's consumers demand a more intuitive and organic digital experience.



SOURCE: BOOKING.COM-STATISTA EUROPEAN ACCOMMODATION BAROMETER

AI can play a significant role in transforming the hospitality industry, enhancing customer experiences, streamlining operations, and driving overall efficiency. Here is a summary of the key roles AI can play in hospitality:

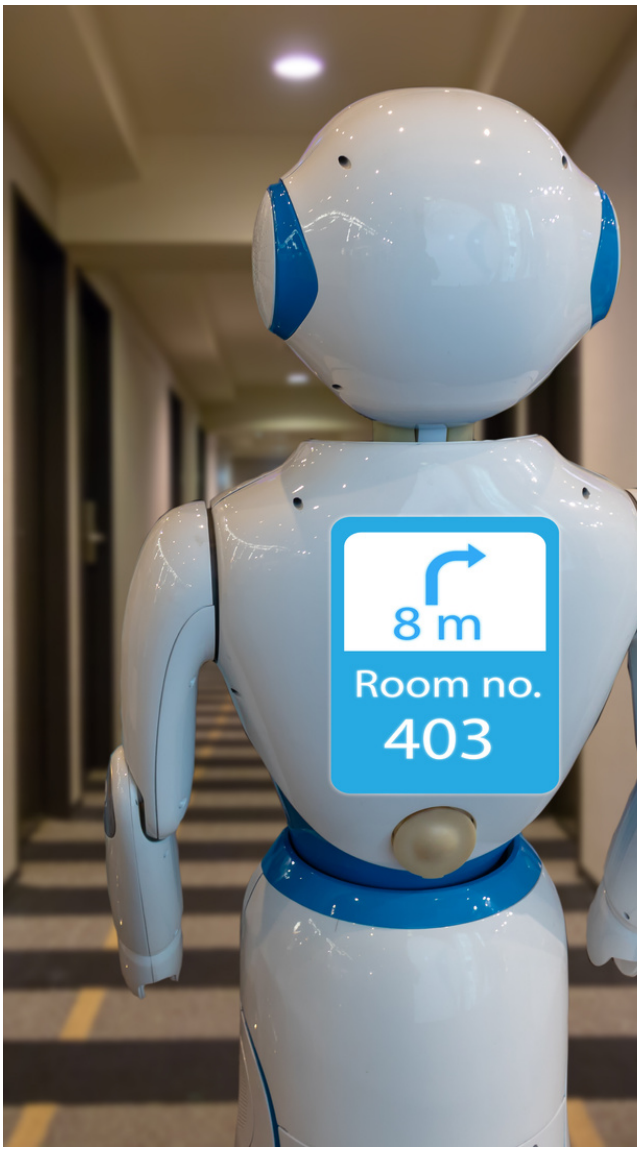
Personalised customer experiences: Analyse guest preferences and behaviour to offer personalised recommendations for accommodation, dining, and experiences. Chatbots and virtual assistants can also provide instant and tailored responses to guest enquiries, including dining reservations and transportation arrangements, translated into any language.

Revenue management: Optimise pricing strategies by analysing historical data, market trends, and competitor pricing, enabling operators to maximise revenue through dynamic pricing models.

Efficient operations: Automate various operational tasks, such as housekeeping schedules, inventory management, and maintenance requests, improving efficiency and cost savings.

Contactless experiences: Enable touchless check-ins and check-outs, as well as contactless payment options, reducing physical interactions and meeting evolving customer needs.

Data analytics and predictive insights: Analyse large datasets and identify patterns and trends, providing valuable insights to make data-driven decisions and anticipate customer needs.



Marketing and customer engagement: Segment customers based on preferences and behaviour and create targeted marketing campaigns that resonate with specific individuals and groups.

Enhanced security and safety: Monitor guest areas for potential security threats or safety concerns, ensuring a safer environment for guests and staff alike.

PART III: PLAYING THE LONG GAME

We have been discussing total revenue management and ancillary revenue for years, but post-pandemic, it is ramping up and forcing hoteliers to get creative.

Research from Oracle and Skift shows that hospitality executives "strongly agree" that "special amenities and upgrades are critical to revenue strategy." In 2022, 49% of hotel executives expected non-room revenue to represent an increasing share of their hotel's revenue over the next three years. In 2021, this figure was 23% (Skift).

Total revenue optimisation should be on every hotel owner and operator's agenda. We have all learned that the unexpected can happen overnight, but it is not simply a case of being ready to execute Plan B; it is about creating a revenue culture that involves and empowers every department to think constantly about generating incremental revenue opportunities. TrevPar rather than RevPar in hospitality speak.

To be successful in this, every owner and operator must think about products and services that their guests need, want and would value, and figure out how their asset, regardless of its current composition, could deliver them. This is about flexibility, creative partnerships, and aligning your operations to build a total revenue culture.

In the longer term, there are a number of revenue streams which you can consider adding to your portfolio:

Unbundle your rooms offering

What does that mean? Unbundling is still a largely alien concept in the hotel world. Rather than selling the typical "standard", "exec", "junior suite", etc., be sure to adopt what is known as attribute-based selling (ABS).

The "junior suite" with a view of the beach, a balcony, a kitchenette, a rainfall shower, and a fireplace, etc., will sell for more than one with fewer of these attributes. Those guests who value these attributes will select and add them on separately, and thus pay more than someone who is only looking for a space to leave a suitcase and nap for a few hours.

Adopting ABS will likely require an upgrade to your reservations and property management systems. It is not a quick win, but certainly the direction in which travel is headed, as the hotel industry belatedly catches up to the way airlines have been selling tickets for the last 20 years (with extra legroom, more luggage, speedy boarding and sitting next to your travel companion). Expedia and Amadeus have been among the goliaths developing technology to assist with ABS, with several start-ups attempting to gain the edge in this space (Aeroguest deserves another mention here).

Food and beverage

A well-established lifestyle hotel should generate at least 50% of its total revenue from its F&B outlets. A large portion of that should come from locals visiting for the vibe or the food, rather than from hotel guests. The Hoxton hotels have perfected this approach.

Unless you already employ a celebrity chef, consider outsourcing the F&B to someone who really knows what they are doing, and has an established reputation. Crowds flocked to Nobu on Park Lane when it first opened despite it being in a hotel, as hotel restaurants were, and often still are, not considered the cool place to be.

Co-working spaces

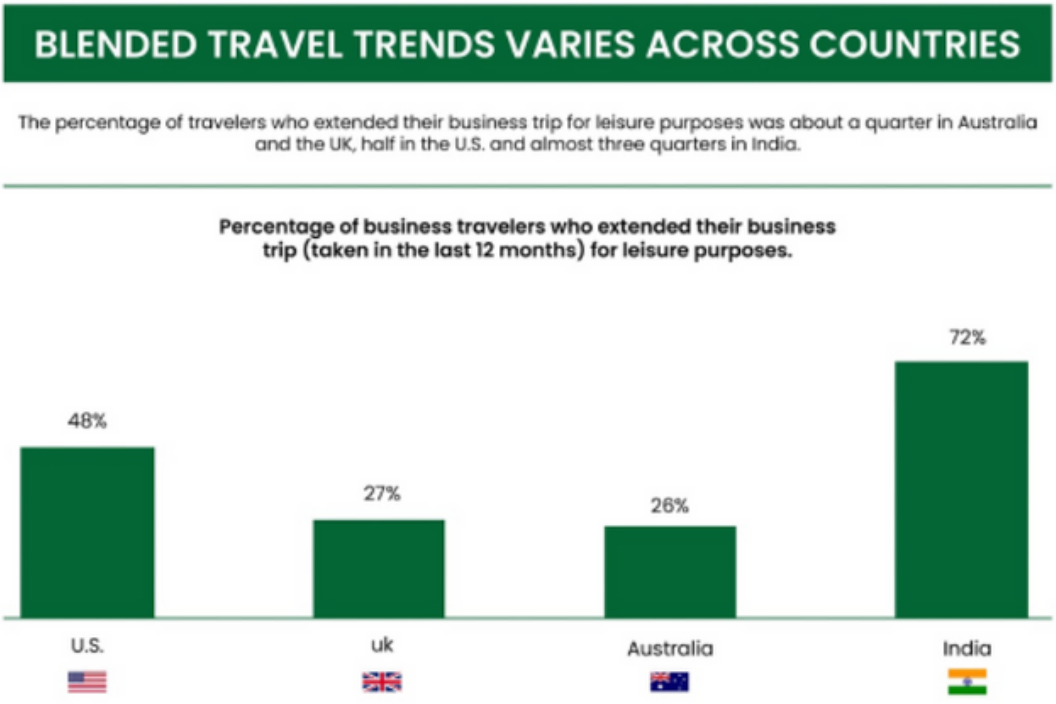
Usage of the Expedia.com and Hotels.com "business-friendly" accommodation filter in Q4 2022 increased by triple digits year-over-year.

A survey by the Global Business Travel Association (GBTA) asked travel managers if they thought employees were more interested in blended travel post-pandemic. 82% of respondents answered that their teams were now equally or more interested in adding leisure time to their business trips (GBTA).

When Deloitte studied leisure holiday travellers that brought their laptops with them, they found that by incorporating some work, the largest cohort of travellers extended their trip by 3-6 days.

So, if your hotels have underused lobbies or lounges, or too many empty bedrooms, consider investing in creating a proper co-working space. This is more than just a few desks in a corner. Think about the real needs of those who are most likely to use them. Are they locals living nearby looking for an escape from their kitchen office on the days they WFH? Or are they more likely business travellers between meetings? This is obviously very much dependent on the location of your hotel(s) so it's not a one-size-fits all solution.

Co-working spaces also require top speed WiFi to accommodate all those Zoom calls, as well as good soundproofing materials, and other



SOURCE: SKIFT RESEARCH STATE OF TRAVEL 2023

tech-enabled amenities such as video conferencing equipment and smart whiteboards. Not to mention all the sockets and USB outlets, or even better, wireless chargers. As well as sofas with tables that can accommodate a laptop and a cup of coffee without a resulting mess. These days it seems a new co-working brand is being launched every other day, but to succeed in this market you need to do your customer research properly.

Spa treatments

Even if your hotel does not have a pool/sauna/hot tub or similar, you can still convert a handful of bedrooms into treatment rooms where therapists can carry out treatments. Local residents who visit the spa are more likely to also buy refreshments, and you can market your wider F&B offerings to them. Again, this needs consideration and investment and an experienced spa professional to oversee it, so it runs smoothly, and you have the right range of treatments available.

Retail

This is not simply a cabinet filled with local souvenirs gathering dust. An effective retail offering can consist of a multitude of things to generate incremental revenue. Many hotels already offer some or all of the following:

o Mattresses (Four Seasons in NYC was already doing this successfully in the mid-1990s – their mattresses really are something else), as well as furniture, art works, cocktail glasses, even shower curtains
o Essentials (sun cream, beach games, toiletries, snacks)
o Local specialties

However, this is often limited to a shop in the lobby charging extortionate prices that only serve to alienate guests who feel they are being overcharged.

A better solution in some cases is to rent space in your public areas to brands that will take care of all aspects of the business, with the hotelier collecting the rent or a commission. Many of the larger luxury hotels have jewellers' or couture labels' outlets on their ground floor.

Other hotels have launched entire new brands, such as the Hoxton's BLANK range of toiletries and other goodies, that are so popular the hotels sell them via Shopify. However, if retail is not your core skill, then this can easily become a distraction as you won't have the logistics set up to fulfil orders efficiently.

The shining example of a tremendous retail experience is Gleneagles' retail arcade which sells a mix of unique, quirky and luxury brands, including some of the best Scottish whiskeys in the world, having set up its own retail operations from scratch. While the revenue generated pales in comparison to the total resort revenue, it is still an important part of the overall operation, especially as it provides some entertainment for well-off guests on the unavoidable rainy days in Scotland.

Also, consider pop-ups. By renting out a space within your property to Sook, you can have an ever-changing array of interesting and crowd-pleasing pop-ups – from fashion and tech to charity fundraisers and artists' galleries – whose visitors are likely to buy food and drinks from you while you collect a rental income.

CONCLUSION

The hospitality sector has faced a flurry of disruptions and transformative challenges over the past 20 years, but innovative industry players have demonstrated resilience that others can learn from, by adapting their operations to evolve with these changes.

From the adoption of sustainability initiatives to the rise of blended travel and the revival of group travel and events, the industry is experiencing an exciting period of rejuvenation and evolution.

As the hospitality industry continues to play a crucial role in the global economy, businesses must focus on flexibility and adaptability to sustain this positive momentum and ensure resilience.

Hotel owners and operators must identify suitable hotel tech and management software to capitalise on new trends and stay ahead of the competition instead of consistently playing catch-up.

By actively learning from successful businesses, both within and outside of hospitality, investing in data-driven strategies, and embracing the experience economy, hospitality owners and operators can not only sustain growth but also continue providing valuable services and creating meaningful relationships with their guests – positioning themselves for long-term prosperity through peaks and troughs, whatever life may throw at them.

ABOUT C-SQUARED CONSULTING

C-Squared Consulting was founded in 2009 by Caroline Cartellieri.

Clients in the hospitality sector have included GLH Hotels, Ennismore (The Hoxton, Gleneagles, Working From_), Welcome Hotels and Hand Picked Hotels. Caroline and her team won the 2016 Techies award for innovation (Techworld) and the World Travel Markets Leaders Award.

In addition to running C-Squared Consulting, Caroline holds a portfolio of non-executive roles, including Non-Executive Director at Europ Assistance, Trustee of Asthma + Lung UK, and Non-Executive Director of the Museum of London Trading Board.

Previously she has served as a Trustee of the Cystic Fibrosis Trust, Governor of the Royal Brompton and Harefield NHS Foundation Trust and Non-Executive Director of Ecohydra Technologies.

She also mentors the CEOs of several start-ups in the consumer tech and hospitality space.