

Independent Hotels: The New Brand Alternative

By Rick Swig

Hotel development in the last decade has demonstrated an acceleration of brand proliferation. Whether brand proliferation has been financial investor or consumer driven is available for argument, but all research would indicate that franchise or chain branded hotels command an overwhelming market share versus independent hotels. Regardless of those trends, however, independent hotels may be more of a viable brand alternative than ever before. Changing customer demographics, evolving products with new environments, and new technologies have created market strength for the independent hotel market sector.

While chains still have strong leverage with familiar or trusted brand names and frequent guest programs, independent hotels have gained significant ground in the areas of distribution through global distribution systems and especially through internet exposure. Hotel groups operating under names as Kimpton, Joie de Vivre, Destination Hotels, and Ian Schrager Hotels are not causing the Starwood, Marriott, Hilton, and Hyatt chains to fear for their survival. However, these groups and other independent owners, who are represented by entities such as Preferred Hotels or Leading Hotels of the World, are making an impact in major markets and specialized resort locations.

Independent hotels have lost ground in market coverage to the brand sector. The percentage of United States independent hotel rooms versus total supply slipped from 38.9% in 1990 to 30.3% in 1999 due to significant growth in the economy and mid-scale chain sectors, but the actual amount of inventory has barely declined. Today, there are approximately 1.2 million Independent hotel guest rooms available on a daily basis versus 1.25 million average daily rooms in 1990.

The success of an individual Independent hotel depends on their ability to be distinctive in their market. While the brands tout predictability, the independents pledge to be different. Brands reflect the consumer at large, while independents are more introspective with regard to their customers. Independents seek to develop products that will link them to a specific niche within the consumer demand sources.

Success in such diverse markets as Miami, New York, Chicago, Denver, Seattle, New Orleans, and San Francisco has reflected a business model with a formula of linking the hotel product to the destination, its neighborhood, building architecture, and the personality of the intended customers.

As Chip Conley of Joie de Vivre Hotels, a group of fifteen independent boutique hotels in and around San Francisco, has noted: "We sell sleep, but we create dreams through making an emotional connection to our customers." Boutique customers according to Conley are "sophisticated, artistic, literary, and conscious."

Some brands are attempting to institutionalize "hip", but their products are relatively generic and comparatively standardized regardless of location. This may not be adequate for the expectations and needs for the independent thinking and acting customer in search of what has been termed "identity refreshment".

Steve Pinetti of Kimpton Hotels feels strongly that "there is a migration or revolt from brands. There is a customer segment who wants to discover 'what's cool')products that are unique and with their own personality. Boutique hotels are really a style or a format for the consumers who want to search for their own individuality and the product that reflects their own personality."

Products aside, there are other changing factors, that enhance the Independent hotels' ability to compete. In effect Independent hotels are now provided the option of maintaining their differentiation while affiliating with "soft" brands, which reflect a defined product position and offer similar service support as franchisors or chains.

Rob Cornell of Preferred Hotels believes that "global distribution brands have evolved today to provide the independent hotel owner/manager access to the latest in reservation distribution and marketing technology, partner relationships, quality standards, volume purchasing and sales infrastructure. This type of arrangement is advantageous as it gives the owner a high degree of control with low distribution cost. Further advantages include low upfront cost, a shorter term contract, and substantial control of the operation; while focusing maximum resources on the generation of measurable revenue."

Even without a relationship to a soft brand or a marketing representation firm, technology has further lowered competitive barriers, as any hotel can utilize the internet to exploit their product with the same level of visibility and distribution as a branded hotel.

Technology is the new vehicle that allows equal access to the consumer world with good web sites, word referencing, and affiliations. Having an internet presence has made a difference. Small and previously insignificant hotels suddenly have a large presence and are booking significant business with effective internet marketing and distribution)and they will only get stronger as consumer comfort and awareness grows.

Smith Travel Research reports that independents are competing and performing well against the branded competition. Although there is no aggregated nationwide research to indicate a defined trend, the general large market competitive situation indicates that although independents generally trail branded hotels in market occupancy share, these hotels do achieve an average daily rate premium and thus can equalize REVPAR penetration.

Independent hotels no longer have the excuse to be weak links on the hotel product food chain. There are defined and willing customer bases to populate them, as previously narrow customer niches have expanded with the need to find different products to reflect their own individuality or personality.

Membership or affiliate organizations have matured and gained credibility with consumers. At the same time these groups have broadened their foundation of services and technology to strengthen independent hotels even further. Brand status has been achieved through the ability to satisfy both independent hotel operators and achieve strong reputations with consumers. The final step in this paradigm will be the positive recognition of independent hotel development from the investment community.