

Preparing for 'Boutique 2.0' and beyond

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Story Highlights

Boutique hotels are becoming the hotel type of choice for a growing legion of young professionals.

As boutique hotels become more mainstream, it is becoming harder to generate premium room rates, occupancy and profitability.

Intangible attributes such as service are gaining importance relative to tangibles such as innovative design.

The advent of boutique (or lifestyle) hotels in the 1980s represented a culmination of many factors. After a decade or more of hotel chains promising that every room would be the same, travelers were ready for accommodations that offered something they had never seen before.

The maturation of the 1970s counterculture movement suggested that a significant percentage of the population was not keenly interested in corporate-styled hotels. Additionally, the emergence of the personal computer in the 80s offered the prospect of people being able to live and work with a greater degree of autonomy and uniqueness than had previously been conceivable.

These mega-trends affected many areas of modern life, and the hospitality industry was no exception.

It is probably no coincidence that Kimpton, Rubell and Schragger were not hoteliers when they launched their hotels. At the time, the hotel industry was fairly well oriented toward efficiency, uniformity and scale. Rising labor costs had hotel managers focused on streamlining hotel operations. Food-and-beverage service generally was serviceable, no better. Corporate programming of hotels drove construction costs lower with the use of standardized plans, facilities and services. Franchising and management contracts were the preferable means of promoting growth without unduly burdening the hotel brands' balance sheets.

Against this backdrop, Kimpton on the West Coast and Rubell and Schragger on the East Coast sensed that customers were looking for something different. And they could not have been more right.



Sean Hennessey

Boutiques blast off

From the start, the economics of boutique hotels were impressive. Travelers reacted favorably to innovative hotels. Our evaluations of many boutique hotels showed that these properties attracted customers who were willing to spend more, travel farther and demonstrate more loyalty than was the case with traditional hotels. The press showered attention on these properties. While expenditures on design and custom furnishings generally were greater than those for established hotel brands, the operating savings on corporate fees and charges often proved attractive.



Cheryl Boyer

It was certainly no coincidence that Kimpton launched in San Francisco and Rubell and Schragger launched in New York City. These cities were two of the strongest hotel markets in the country during the early 1980s, with occupancy levels consistently among the nation's highest. Strong market demand gave these innovative hoteliers, and perhaps more importantly, their financial backers, the confidence to develop hotels without the corporate-brand recognition and marketing support on which most developers counted.

More recently, boutique hotels gained broader recognition and took off in new directions. Entrepreneurs such as Andre Balazs and Chip Conley brought a new level of sophistication and creativity to the sector. Operators such as Thompson and James emphasized service to augment design.

A major turning point was the advent of Starwood's W hotel brand, which merged the vibe of boutique hotels with corporate-marketing power. The successful launch of W hotels left other brands searching for similar

momentum.

Boutique 2.0

Over the past few months, the boutique hotel world transitioned to the next stage of its development—call it “Boutique 2.0.” Consider the following announcements:

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- Joie de Vivre merged with Thompson Hotels;
- Ian Schrager announced the launch of Public, an affordable boutique brand;
- Marriott was sued in Hawaii after the launch of Edition hotel, Marriott’s boutique brand;
- Marriott announced an agreement to purchase an iconic New York office tower for a new Edition hotel; and
- Virgin Airlines, following its announcement of a boutique hotel brand last year, purchased a building in Chicago for conversion to its brand.

What trends can be discerned from events such as these? In our opinion, they represent the maturation of the stylized hotel business. The following points summarize our thoughts about where the boutique-hotel business is headed:

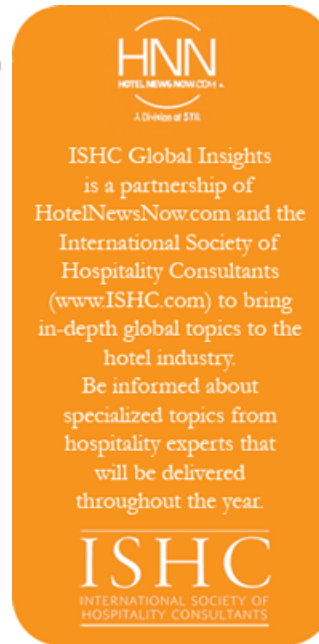
- Boutique hotels are moving into the mainstream. Highly systemized hotel offerings are becoming somewhat less appealing, and hotels are offering accommodations that are more in sync with the psychographic profile of younger travelers.
- Increasingly, scale matters. Even the creative customer segments on which boutique hotels thrive—fashion, advertising, music, publishing—expect to have their favorite hotels available to them in a variety of destinations. Even boutique hotel guests like receiving recognition for their loyalty, and sophisticated marketing support can add efficiency. We expect consolidation both among management and property ownership.
- As boutique hotels become more mainstream, it is becoming harder to generate the premium room rates, occupancy and profitability that had historically accrued to innovative hoteliers.
- Intangible attributes such as service are gaining importance relative to tangibles such as innovative design. It is more challenging to secure consumer consciousness with intangibles.
- In order to achieve scale, it takes more than a good idea—it takes ready access to capital. Starwood’s W hotels grew by putting its own money behind the brand. Marriott and Virgin are now following suit. Many investors are skittish about backing unproven brands, and sponsors of boutique brands will need to take leadership in supporting their growth. Consider that Virgin, a superlative brand, went almost a year after announcing its hotel business before generating significant buzz about its first hotel—a property Virgin itself is acquiring. Similarly, Marriott’s acquisition on an iconic New York office tower might be the spark it needs to energize Edition.

Do these trends suggest that today’s boutique offerings might become tomorrow’s run-of-the-mill hotels? We doubt it. In fact, we believe something quite the opposite is underway.

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The trick will be to make each property and each guest experience feel like a highly personalized experience, even while boutique hoteliers become more organized behind the scenes. Hotel chains, as well as entrepreneurs will have to creatively move to the next level—to Boutique 2.0—in order to win the minds and wallets of the next generation of hotel customers.

Sean Hennessey founded Lodging Advisors LLC in 2004, and serves as its chairman, which Cheryl Boyer, who joined in 2005, serves as president. The company is focused on providing highly customized advisory services to the lodging industry’s capital providers. Both Sean and Cheryl are sought-out speakers, authors, and commentators on industry trends.



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