

Opinions

Hotel owners enter new age of angst

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What's to blame for keeping hotel owners up at night? Millennials, disruptors and OTAs aren't solely at fault.



By **Bill Barnett**

There never has been a worse time to be a hotel owner. Now that statement is certain to raise some eyebrows, but from a global hospitality asset position, I'm sticking to the point, and let me tell you why.

We live in an asset-light world which has boldly created a new world order of mega-brands. Just take a look around: Uber, Amazon, Airbnb, Facebook and Instagram—the new montage of the shared economy is about shedding the chains of conventional brick-and-mortar establishments.

Sadly most hotels still have a fair amount of bricks and mortar, hence a widening abyss is wedging itself between all things new and all things old. I can't really say the culprits here are the millennials or those digital-savvy entrepreneurs.

Instead I firmly place the blame at the feet of the hotel chains who somehow fell into a self-induced coma sometime around when the internet started and the present day. It remains one of the great mysteries of our time how the hospitality brands missed the rapid change in distribution and only woke up once they realized that online travel agencies had created themselves into virtual necessities.

Effectively OTAs have courted and ended up in bed with both the broad travel base of consumers and hotel operators. It's a hard act to imagine, but in the end, they have gotten the cake and are digging in for a long food fest.

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Today, the impact of OTA business, with its higher expense and detrimental effect to a hotel's ability to sustain long-term guest loyalty, is hitting the bottom line. At the end of the food chain are hotel owners who are wondering why rising costs are eroding profitability.

It's interesting to see how hotel chains are approaching the conundrum; the most commonly versed sentiment is "what choice do we have?" Indeed, "suck it up and see" seems to be the only answer from operators who are simply going with the flow. But one has to ask: What about the sales pitches of days past on the value of global distribution, economies of scale, central reservations and loyalty?

My read is if you want loyalty in 2017, you'd best get out and get a golden retriever. But I digress, so back on point.

Independent hotels equally cast a lustful eye to the OTAs, and figure they can use them, essentially, as outsourced sales and marketing. That's fine when the bookings roll in, but what happens when supply outweighs demand, or in a downturn? Who will protect yield? After all, the online game is to push value offerings; and once the discounting starts, the bottom line falls away.

But OTAs aren't solely to blame for why owning hotels is sucking wind these days. Taking a step back and looking at the international scene of hospitality assets, the state of disruption in the post-global-financial-crisis world is not dissimilar to a cardiac arrest. The economic truths that once prevailed have somehow flown out the window. Remember the one about property values never going down? Subprime brought that to end.

We all know the two biggest operating costs of hotels are staff and energy, and the state of disruption has impacted that across the board.

To be short and sweet: Hotel owners are increasingly seeing the profit lines drop with a mismatch or inability of revenue growth to offset expenses. Bizarrely for hotel operators, the world remains a seller's dream, given travel growth and surging capital markets. Indeed, everyone seemingly wants to own a hotel.

Why? I'm frankly perplexed. Hospitality groups have fled to the sidelines in the quest of the asset light mantra. Anyone who has taken hard a look at the valuation of shared economy offerings compared to the brand-led hotel chains can easily do the math. But take one step back and behind the hotel operators stand the asset owners who are losing out day in and day out.

The key question here is where is the equilibrium? When will major chains take a stand for their owners against the escalating OTA costs and create parity? Clearly the bottom line is the bottom line, and in the world of all things disruptive, hotel ownership has somehow ended up at the bottom of the pile. Things need to change and change soon.

Bill Barnett, a globally recognized hospitality, tourism and real estate advisor, is the founder and managing director of Asia-based C9 Hotelworks. In addition to being a leading consultant, he is a frequent speaker at industry events and conferences. He is the author of four books on travel, property and hospitality, and a member of the International Society of Hospitality Consultants (ISHC) and the founding advisor of the Phuket Hotels Association.

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