

The Business of Hospitality

Hotel brands give an imprimatur of quality to mixed-use development. At a time when great service is the price of entry, the experience they offer is what differentiates them. We asked four leading hoteliers: How do they do it?

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SIMON COOPER is president/COO of Ritz-Carlton Hotels, L.L.C., responsible for a premier global brand and its portfolio of 60 hotels, 24 of which have opened on his watch. Since joining Ritz-Carlton in 2001, he has extended their brand to The Residences and The Ritz-Carlton Club. He is also responsible for developing Bulgari Hotels, a joint venture between Marriott International, Inc. and Bulgari S.p.A.

Why do luxury hotels focus on experience?

SC: If you equate customer satisfaction with meeting guests' expectations, we equate customer loyalty to that element that surpasses expectations. We try to layer experiences and an outstanding memory on top of a perfect stay. That idea isn't really new. You can trace it back at least seven or eight years, when the book *The Experience Economy* was published. Twenty years ago, we were all striving for consistency, trying to deliver the same sort of product around the world. Consistency was good—Holiday Inn's notion of "no surprises." Today, we're in a totally different business—consistency of service is assumed. It's the price of entry. Creating memories and experiences is where value for the customer is today. We want our guests to become emotionally attached to our brand because of their stay. It's not exclusively about service, and service is not just about people, either. It's also about products, décor, and comfort. The guest room in particular has to be a "wow."

Do you distinguish between business and leisure travelers?

SC: Our business guests are often the same people who vacation with us, so we don't really make that distinction. Having said that, the design, décor, and service needs around Wall Street are more focused on business needs than they are

in Naples, Florida. But we don't for a second think of our hotels as being aimed at business or at leisure. There's no distinction in our mind between the kind of recognition and experience we try to deliver.

In my view, business and leisure travel are definitely converging. I was in the club floor of The Peninsula in Beijing recently, and it was all couples. They were there on business, probably, and using the opportunity to spend some quality leisure time together.

How important are demographic differences?

SC: We don't design for a particular demographic—we look at overall trends of behavior. Gen-Xers are only 27 percent of our business, but they drive 60 to 70 percent of our decisions. That's because Boomers are embracing their trends. You don't have to be in your thirties to download music to your iPod or dress casually for work or for an evening out. Our guests are embracing a more casually elegant way of living, and so are we.

What else is having an impact on your hotels?

SC: Technology is driving a lot of the way we design hotels. It's going to make the stay more convenient, but I'm not sure it will dramatically improve the experience. Guests expect hotels to reflect what they're using at home and in their lives, and to be compatible with their equipment, whether it's iPods or laptops. Technology can personalize the guest room climate, but that creates a huge and costly expectation. I'm not sure it's worth it.

Why is Ritz-Carlton so often an element of mixed-use?

SC: Mixed-use is here to stay, and the Ritz-Carlton brand is tremendously beneficial to the developer, whether the balance of the development is residential or office space. For us, it means that we can do a right-sized hotel. If you have a site in a major U.S. city with an allowable square-footage, you're going to fill it. Take Ritz-Carlton Battery Park. We could have done a 700-room hotel on that site, but it didn't make any sense in that location. So we partnered with Millennium and did 277 guest rooms in conjunction with a great residential product. The developer achieved a significant premium for the residential units, because of their association with Ritz-Carlton.

THOMAS DAVIS JR., AIA is the senior vice president of architecture and construction at Marriott Vacation Club International, responsible for development and construction of a worldwide portfolio of resort brands that also includes Horizons by Marriott, Marriott Grand Residence, and Ritz-Carlton Club. A licensed architect, he is focused on the vacation ownership and residential sides of the hospitality industry, an emphasis that reflects his earlier experience in planned resort communities in California and Hawaii.

What's driving the rise of vacation club properties?

TD: People go to the same hotel for years and develop a brand loyalty. Then they pick one or two places where they like to go on a regular basis. When rates cycle up, they find themselves paying up to \$1,200 a night for two or three rooms, just to stay in a comfortable location. So they say, 'If we're going to spend this much money to come here every year, maybe we should just buy a home.' Looking into it, they find there's an ownership side to the hotel they've grown to love. So they can buy a fraction of, say, a \$2.5 million beachfront condominium. The fractional shares are based on the likely seasonal demand in a given location.

All the major hospitality brands are in the timeshare business now. Some of them are into fractionals, and a few are into branded homes and condominiums. With a timeshare, you're buying a particular view and season. With ownership, even if it's fractional, you're buying a specific unit. The fit-and-finish is equivalent to the hospitality brand—three, four, or five-star quality, but of course the units are larger. Two-bedroom Marriott Vacation Club timeshare units are 1,280 square-feet; Ritz-Carlton Club two-bedrooms start at 1,600 square-feet, and the residences can be 5,000 square-feet or more. The brand and service are identical with the hotels. In most cases, they share the same amenities.

Are you seeing any new amenities in your properties?

TD: People are starting to demand theme park-type features at resorts, particularly related to water entertainment—water slides, fountains, caves, multiple hot tubs. Just having a swimming pool is not enough. My kids always ask if there's a slide. Family vacation decisions worth five to ten thousand dollars can hinge on those details. A lot of our customers bring kids—the split between families and couples ranges from 60/40 to 50/50, depending on the region. We're not seeing a generational split, though. People just reach a point when they decide they like a particular area and they want it again and again.

Do vacation club residents mix business and leisure?

TD: They want business-style amenities, like high-speed Internet access. Our customers are business people and they tend to have lifestyles where their work lives and social lives are mixed. Even on vacation, they're doing some level of business.

How do vacation clubs fit into mixed-use developments?

TD: In the hospitality industry, "mixed-use" means hotels, condominium hotels, timeshare and fractional ownership units, whole ownership real estate, and spas, golf courses, and retail. This is a huge growth area for Marriott, because we can deliver all of that under one brand—and often do so on one large mixed-use campus. That's the future for us. We believe there are synergies between the ownership and hotel components. For us, it's not just a way to get the hotel built, it's a broader investment in maintaining brand loyalty. Whatever the customer wants, we'll deliver it. We'll build shopping centers if that makes economic sense. If you ask someone if they want a great shopping experience at a resort, they're going to say yes, but the demand has to be based on the number of customers.

LAURENCE GELLER is the founder of Strategic Hotel Capital, Inc., a leading owner and asset manager of branded hotels and resorts. As president/CEO, Geller directs a portfolio of 17 hospitality properties in Europe and North America, including both sophisticated high-end business and resort hotels and large convention hotels—some 8,000 rooms. He is past-chairman of the Industry Real Estate Financing Advisory Council of the American Hotel and Motel Association, and a board member of Gaylord Entertainment Company.

What do guests expect now, and how do you deliver it?

LG: Our guests want things tailored to their own needs—and they've got their own needs much more defined. The days of the hotelier telling guests what they want are over. So it's all about consumer research now—watching lifestyle, demographic, and socioeconomic trends, and literally interviewing your customers so you can give them what they want, not what you think they want. You want local flavor and flair, but it's more about individuality. If a customer wants a wine bar, he won't settle for a coffee shop. If she wants a room with a fireplace, you have to provide it. That's the reality now.

Mid-market and at the lower end, there's a need for homogeneity, but the higher end, that's not the recipe for success. It's changing at a velocity I've never seen before, and you either adapt to it or you'll end up in a graveyard spiral. People's pattern of consumption today is both brand-based and needs-based. When they buy a car, they don't just order a color—they go on-line and order the exact car they want, right down to the leopard skin stripes. Our hotels are like this. We can't physically customize them for every guest, but we can and must customize the services. And if the trends say "change," we'll change—boldly, quickly, and wholeheartedly.

Are business and leisure different markets, or are they converging?

LG: They're different offerings. To try to be all things to all people—you can't do it. That's a decision you make based on profitability. But it's also based on consumer research for the specific property, not the brand—everything from questionnaires to on-line research.

How do entertainment, retail, and condos fit in?

LG: A hotel is always a mixed-use development, just like an airport. Pairing hotels with condos is really the same thing—it's not about anything else but yield per square-foot. We're the only ones, as far as I know, who measure the yield per square-foot of our public areas, not just our guest rooms. Deciding on the most profitable mix is much more of a three-dimensional modeling game than ever before, based on research and empirical analysis. It isn't touchy-feely experiential.

What about technology? Is it changing things?

LG: I'm interested in any technology that gives me the ability to do better research and analysis. And this raises a point: architects have to be much more versed in consumerism today. The best are consumer addicts. They understand the need to get the facts so they can build on them. If architects aren't screaming for research, they're not doing their job.

DIETER HUCKESTEIN has overall responsibility, as chairman/CEO, for the Conrad brand of luxury hotels. Since 2004, he has overseen an active development program for Conrad Hotels that takes in Dubai, Las Vegas, Miami, Tokyo and other cities. A 35-year veteran of the hospitality industry, Huckestein previously sat on the board of Hilton Hotels Corporation for 10 years. He is also president of the International Hotel & Restaurant Association and past-chairman of the American Hotel & Lodging Association.

What does “brand” mean in hotel terms?

DH: A brand encompasses the location and design of the building, the interior design, and the features and amenities—the different spas and restaurants. Every hotel has a different spin to it—it depends on where you are. Luxury is hard to define because it’s constantly evolving in our fast-paced society. It’s not always outwardly apparent, something guests can easily see and feel. It can mean something completely different to each of them. In New York, luxury can mean having the hottest restaurant; in Hong Kong, the best spa. Our Conrad brand is contemporary, but with an inherent luxury based on the locale. We believe that you should allow the indigenous culture to imbue the design. The basic standards have to be there, but a hotel should unfold like a story or a play: you arrive there as a stranger, and it makes you feel like you’re at home away from home.

What do guests want now from a hotel?

DH: It depends on who they are. Baby boomers, with \$2.1 trillion in spending power, have the most disposable income, but GenXers, ages 25 to 45, are also a great market. They both want a hassle-free experience that meets and hopefully exceeds their expectations. Technology is part of this—it’s an enabler that provides better service for our customers. Soon, for example, we’ll have handheld check-ins, and the front desk will be history.

It’s changing the guest rooms, too. Armoires are out and flat screens are in. When you put a flat screen on a wall, it becomes the center of the room, visually, dominating it. So this one change has triggered a whole new design element for guest rooms.

How else is technology affecting hotel design?

DH: When you take a shower in the new Conrad Tokyo, you can look out through clear glass at Tokyo Bay, or if you want privacy you can flick a switch and the glass turns milky. The sense of place is there, but the look is modern, in keeping with our brand and with what technology makes possible.

Why are we seeing hotel-branded residences?

DH: You can’t build stand-alone luxury hotels anymore. The construction is so expensive that you have to add a residential component to get it funded. That’s just good capitalism, which is also why hotels are being converted to condos in some cities. The yield is better. For us, it’s very good—when you lower the supply of guest rooms, demand goes up.