

The second annual Independent Lodging Congress, held September 29 to 30 at the Rittenhouse hotel in Philadelphia, brought together a mix of hotel owners, management companies, developers, lenders, and suppliers to explore the future of independent hotels. Andrew Benioff, Managing Partner at the Llenrock Group and the founder of the congress, set the tone: "Each independent hotel asset offers its stakeholders the opportunity to create a product on their own terms, unencumbered by brand, tailored to its local and the discriminating tastes of the 21st century hotel guest." Representatives from international hotel companies and independent properties weighed in on the advantages and challenges of going without a brand, and discussions at the congress went on to show how the hospitality landscape has shifted—in favor of and away from—the independent hotel.



The Trend toward Independence

The traditional mode of thought says that hotel guests largely seek out the consistency of a brand—it's comforting to know what to expect for your overnight stay, especially when you're traveling to unfamiliar destinations. But some travelers are drawn to more unique accommodations, and this segment is growing. Are the guests of boutique and independent properties more adventurous, more sophisticated, more avant-garde? Perhaps. But the "lifestyle" trend among branded hotels points to an expanding marketplace of travelers that seek out "authentic" features—art, cuisine, culture, personalized service—that non-branded hotels have a special capacity to provide. The world's leading hotel companies have responded to the trend by introducing the concept of "soft brands" such as Autograph by Marriott, Curio by Hilton, The Luxury Collection by Starwood, and Ascend by Choice.

The Independent Experience

Independent properties must find ways to maximize the guest experience while increasing profits. This depends on flexibility, such as being able to offer budget accommodations for students, and setting up a lobby to serve as a sort of "community center" where guests can congregate and interact. The "Leaders from Another World" session at the event focused on offering a unique "experiential" stay for guests, with panelists talking about how to create memorable, thematic experiences that would lodge in the minds of guests and keep them coming back to the hotel. The consensus was that guests will pay for luxury services if they create a sense of value in the form of a unique experience, and independent hotels have that potential because they look and feel different—they're attractive precisely because they're unknown and not considered run of the mill.

Whether to Go Independent

"Breaking Up with the Brand" panelists talked about what to consider before de-flagging a hotel and terminating a franchise agreement. It breaks down to the numbers: hoteliers have to model the costs, starting from the premise of keeping the hotel branded. The decision whether to de-flag has much to do with market conditions and the terms of the franchise agreement. When the economy and travel are under pressure, as they were during the recession, brand reservation and marketing systems create a sizable advantage. Also, breaking the terms of a franchise agreement can come with serious costs by way of termination fees and liquidated damages, though panelists noted that these can be negotiated and possibly lowered; by contrast, management agreements at independent hotels, where they exist, typically have shorter terms. The advent of OTAs is making it easier for the independents to compete with

the brands, and this has helped level the playing field. In addition, in a world where hotels are made or broken by reviews, independent GMs have the capacity to respond quickly and on their own initiative to positive or negative comments in the cybersphere.

When does it not make sense to break up with the brand? Hotels in secondary and tertiary markets need to take special consideration, as these markets typically lack the wealth and diversity of demand generators that produce a consistent influx of guests and keep occupancy and average rate at a sustainable level for an independent hotel. In markets where the fundamentals are strong, an independent hotel owner must have a well-thought plan for offering the guest a custom experience, preferably one that ties into the local culture—it's the only way to keep them coming back.

Loyalties

Executive Roundtable panelists discussed the importance of giving today's consumer an "authentic" experience. Some of the soft brands offer this authenticity, though, as mentioned above, whether to go with one of these brand concepts versus independent has to be considered quantitatively in terms of cost. It was noted that many GMs have maxed out on their upward mobility potential and are in search of a new challenge that allows them to flex their creative and entrepreneurial muscles; some participants said they have in fact seen considerable talent coming to the independent realm from the chains.

The various loyalty programs offered by the big brands have become wildly popular; guests, in the words of some, have become "addicted." But the overriding consensus at the congress was that these programs are in need of reinvention. Loyalty programs that reward only a number of stays or dollars spent with a brand don't follow the logic embodied by the independent "experiential" sense of value, and there was discussion about how to create a loyalty program that rewards and extends the experience of a guest at a particular hotel. Still, because all loyalty programs come with associated costs, operating performance at a property needs to be the final consideration. A property's performance should maximize the asset's value, and this is an area where independent hotels have an advantage. They focus on the guest and the asset, versus returning (and perhaps sacrificing) value to a brand.

Lending

As the concept and acceptance of the independent hotel gains momentum, lenders are turning their attention to independent properties that are located and positioned in favorable ways. Panelists at the Capital Markets segment of the conference agreed that consumer preferences have changed and the independent lodging landscape is much better received among lenders, especially for hotels that have a strong marketing plan.



Conclusion

The 2014 Independent Hotel Congress made it clear that while brands may not be an encumbrance, the facility with which independent hotels operate, and the unique experiences they can offer guests, prove a strong advantage. The costs associated with running a major hotel flag, including PIPs, renovations, site inspections, and franchise fees, may not be reason enough to go independent. But when market conditions, demand fundamentals, and property positioning are taken fully into account, the independent route appears more and more favorable.