

## Evolution not revolution



**A well-run hotel business must invest in innovation throughout the economic cycle – and investments of this nature will contribute to the evolution of the hotel industry and the brands that make it up.**

Like me, you may have been surprised to read that, as the world slides into recession, the Hilton family of brands has been expanded.

It now includes *Home2Suites*, an entrant in the extended-stay market.

At first sight, this move at a time like this seems like folly - as it may yet prove to be. When you own and control one of the world's great brands, why expose the business to additional risk by launching into the relatively unknown at a time like this?

### Struggle for existence

Clearly a hotel brand is not a member of the natural world, but perhaps it shares some of the characteristics of animals and plants. Since Darwin's birth 200 years ago, mankind's understanding of the natural world has changed almost beyond recognition.

Most of us accept the idea of evolution by natural selection. The struggle for existence, often referred to as the survival of the fittest, is made up of four key assumptions.

1. Organisms vary one from another, even within a species
2. New variations can arise from time to time
3. Some of these variations are passed on from parent to offspring
4. More individuals are born than can exist in the available space or can be sustained by the available resources

Can we relate these assumptions to drivers of change in the hotel industry?

Well, there are different types of hotel (urban vs. resort, convention versus boutique, five star versus one star) which reflects Darwin's thesis that organisms vary one from another even within one species.

The recent introduction of the limited service hotel, the extended stay hotel and now the 'lifestyle' hotel all suggest that new variations do arise from time to time.

We know that some elements of limited service, extended stay or 'lifestyle' will be reflected back into the mainstream so that the variations these segments utilise do get taken forward.

Some hotel brands have been around for decades; the successful evolvers include Hilton, Holiday Inn and Sheraton. Yet others have only come into existence in the last decade; these include Aloft, Cambria, Hyatt Place and now Home2Suites. Will they too last for half a century or more? They will if they learn how to evolve.

And brands are also occasionally withdrawn from the market; in recent years, these have included Amerisuites, Folio Hotels and Holiday Inn Garden Court. These withdrawals reflect the fact that the brands can no longer be sustained - usually because of evolving customer and/or investor needs.

## Changing needs

Looking back is helpful but it doesn't help us anticipate the future or put in place the business processes to ensure the long-term survival of our hotel business, our hotel brand.

To understand this, let's remember that business economics and psychology are merging. The concept of 'rational' consumer behaviour is being rejected with a move to understanding how customers/guests actually behave. Deep evolutionary influences mean we are more reluctant to act as 'rational' consumers than the classical economist would assume. For example:

- Over the years, **the herd mentality** has been generally shown to be useful. It will be relatively safe for me to take the family on holiday to Costa del Sol because my neighbour has been there with his family and they not only survived but also enjoyed the experience. Copying what other hotels do successfully means our hotel is also more successful. Copying how successful retailers such as IKEA sell can help hotels be more successful in selling. Avoiding major price differentials between us and our competitors ensures that both we and our competitors trade successfully. There are, of course, limitations and sometimes the master-stroke is to make a truly independent assessment of the market rather than follow-my-leader.
- It's now widely accepted that the '**endowment effect**' means we (as well as at least three other primates) value objects we own higher than similar objects we have never owned. Hoteliers do well to remember that their target guests will almost always prefer to stay at home than in a hotel or at friends.

How often has head office complained that a hotel general manager has become too proprietorial about the hotel and can't see the competitive threats because he is basking in his in-house achievements? How often have we seen hotel owners valuing their hotel at a multiple of X times EBITDA but turning a blind eye to the fact the one down the road was sold at a multiple of less than X?

## The evolutionary path

You can help your hotel business develop further by understanding the path it has taken in its evolution and by recognising the mechanisms and rules by which its future successes will be achieved.

Remember - evolution has no fixed direction; that evolution does not always imply progress. A creature can evolve to be more complex or simpler. It all depends - but there are only so many ways that things work. Evolution will be channelled into these ways.

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