



The Rise of Non-traditional Lodging

WHAT EXACTLY CUSTOMERS
CARE ABOUT

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Reflections on the present and the future of innovative accommodation



In an environment where the experiential economy is gradually occupying the market, hospitality - a service-oriented industry - continues to face the impact of increasing competition, consumer aesthetic fatigue, rising rents and labor costs, and other aspects. The expansion of the experiential economy has, in turn, prompted a speedy emergence of "non-standard accommodation" (henceforth referred to as "non-standard"), which is the main subject of the present paper.

"Non-standard" is a new type of accommodation that is different from traditional standard hotels. It can provide not only the most basic accommodation services

for tourists, business people, and other target users but also a more "humane" in-depth stay experience, of which the most representative one is the B&B model. According to the China Hotel Industry Development Report 2020 released by the China Hotel Association, as of January 1, 2020, there were 608,000 accommodation facilities nationwide (except Hong Kong, Macau, and Taiwan) and a total of 338,000 hotel industry facilities. Among them, 52,000 are chain hotels, and 286,000 are non-chain properties, which means that the former group accounts for a mere 15% of the total supply, with some chained properties falling into the category of "non-standard accommodation".

Despite its apparent popularity, the non-standard market development is not yet mature. So why does a large portion of guests and owners choose "non-standard" instead of traditional accommodation? To dive deeper, let's first take a look at the following four representative hotel cases.

01

DEFINITION

In order to explain the relevant content more clearly, we first give appropriate definitions for the terms used in this article.

02

HARD BRANDS (MOSTLY STANDARD HOTELS)

Refers to the original brands of large hotel management groups (whether self-developed or post-mergers), such as Ritz-Carlton, Marriott, W under the Marriott Hotel Group; Waldorf Astoria under the Hilton Hotel Group or Park Hyatt, Hyatt, Andaz under the Hyatt Hotel Group. These brands have their own unique and strict brand standards and requirements. For example, although Xi'an W and Shanghai W are located in different contexts, both hotels have adopted the nightclub-style in everything from hardware to atmosphere. Finally, some of these hard brands only accept the model of the management agreement, while others operate under a hybrid of the management and franchise agreements.

03

SOFT BRANDS (MOSTLY NON-STANDARD HOTELS)

Refers to the derivative brands of large hotel management groups, such as Luxury Collection and Autograph Collection under the Marriott Hotel Group; Curio Collection under the Hilton Hotel Group, and Hyatt Hotels Group's Unbound Collection. Most of the properties of these brands are relatively independent, and each hotel is unique. The management group outlines operational standards, and almost all accept the franchise model.

04

HOTEL ASSOCIATIONS (MOSTLY NON-STANDARD HOTELS)

Refers to third-party organizations, joined by internationally-numbered or independently-run hotels. Properties in these associations provide services, hardware facilities, and personalized features above a certain standard. An association typically charges a certain membership fee to help sell hotel products, thus expanding its members' business scope. The average cooperation period is at least three years. Some of the relatively well-known international hotel associations are referred Hotels & Resorts, Leading Hotels of the World, Small Luxury Hotels of the World, and Relais & Chateaux.

01

Cotton House Hotel Barcelona, Autograph Collection

NUMBER OF ROOMS: 86 F&B: 1 RESTAURANT & BAR, ROOM SERVICE
RECREATIONAL FACILITIES: GYM, SWIMMING POOL



Cotton House is located in the former headquarters of the Association of Cotton House Manufacturers. This was once a building where Catalan bourgeois would come to get their clothes tailored. The iconic building is in every way representative of the XIX century, a period that has given life to the spirit and culture of Barcelona. Much of the original design was painstakingly preserved, and original belle époque features like frescoed ceilings and ornate floor tiles are visible and, frankly, quite stunning, yet the overall feel of the hotel isn't stuffy at all due to the interior designer Lazaro Rosa-Violan's whimsical touches. The entrance of the emblematic building is marked by a beautiful vestibule covered in mirrors, followed by a hall which then gives access to two stairways: one, a grand marble staircase, and the other, a spiral staircase built in 1957 that received much acclamation among experts in architecture. These days guests can relax in modern luxurious rooms or treat themselves to a few stunning outdoor areas and a top-notch restaurant.

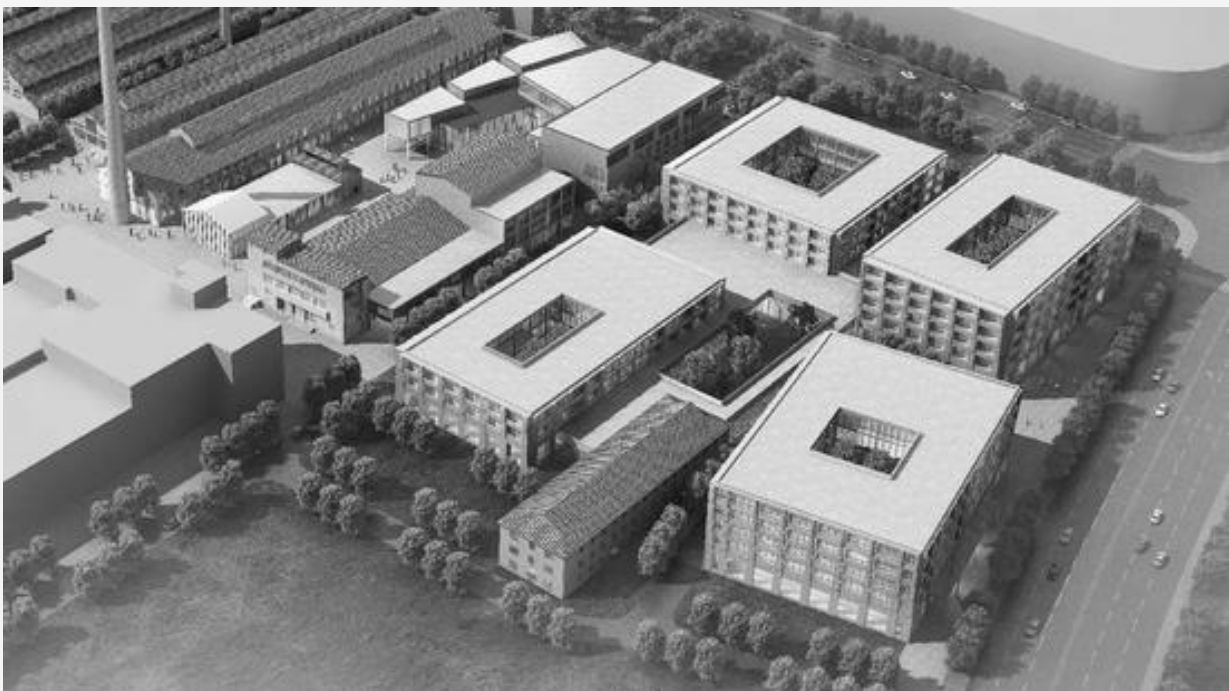
As an independent hotel with historical background, Cotton House has become a member of Marriott Group's soft brand Autograph Selection. The property also has its own official website, but only the original hotel name is retained on it, while the Autograph logo is purposely downplayed, as usually happens with soft brands.

02 Unbound Collection & Hyatt Place Jingdezhen

NUMBER OF ROOMS: 350 (UNBOUND COLLECTION 196, HYATT PLACE 154)

EXPECTED OPENING: 2021.05

Jingdezhen is a well-known Chinese porcelain capital with a long history. Considering its rich heritage, the Hyatt Group developed a property under the soft brand of Hyatt Selection, inviting a famous British designer David Chipperfield to work on it. Unlike other independent soft-brand hotels, this project is a combination of a non-standard accommodation option and a more traditional hard brand Hyatt Place. Such an interesting approach was adopted in order to preserve the excellent service standards while also expressing the location's unique personality and allowing guests to experience local culture. Since the hotel is yet to open its doors to the public, we can only wonder if such a hybrid model would find appreciators in the market.



03

Songtsam Lodge (Lvgu)

NUMBER OF ROOMS: 30

F&B: 1 CHINESE RESTAURANT



Those who love Northwest China most probably have heard about Songtsam Hotels. The brand started its journey as a B&B in 2001 and now successfully owns 11 hotels, all of which are located in Tibet and Yunnan in the southwestern region of China, with Songtsam Lvgu being its flagship. The unassuming Tibetan-style civil structure faces a lake inhabited by waterfowl and surrounded by a hillside. The hotel is located in Kna Village next to Ganden Sumtseling Monastery. Every day in the morning and twilight, prayers can be heard on the periphery, and monks chant the scriptures written on the walls. This kind of Tibetan tradition is exercised here around Songtsam Lvgu uninterrupted for centuries on. There is also a large number of precious thangkas, tapestries, and Buddha statues displayed in the hotel, which is like a small museum definitely worth visiting.

The success of Songtsam is obvious. Those who have been there might say that there is still a gap compared to traditional hotels. However, the level of personalization and exposure to local culture that Songtsam brings to tourists is also beyond what standard properties can usually provide. With the growing expansion of Songtsam, we are looking forward to seeing what kind of business strategy Songtsam adopts in the future.

04 Black Stone M+ Shanghai

NUMBER OF ROOMS: 24

F&B: 1 WESTERN RESTAURANT, 1 BAR



Black Stone M+ Shanghai is located on Fuxing Middle Road, in the Hengshan Road-Fuxing Road historical and cultural area, which is rather representative of the city. These days the Hengfu Scenic Area has become concentrated with Shanghai's classical music resources. The hotel is situated next to the Blackstone apartment, which has a long history and is fairly well preserved. Black Stone M+ Hotel is surrounded by the Shanghai Symphony Orchestra, Shanghai Conservatory of Music, Shanghai Symphony Museum, music performances, music retail, and music theme museums. This area is a fusion of drama, symphonic music, and humanities, for which it has been called the "Music Golden Triangle", around the prime location of which the Blackstone M+ Hotel was born at the right moment. M symbolizes music, moment, modern, magic...while "+" represents infinite possibilities and a multi-dimensional outlook. Hidden in the busy city, following the aesthetics of "Shanghai School", Black Stone M+ offers its guests a journey through creative old Shanghai.

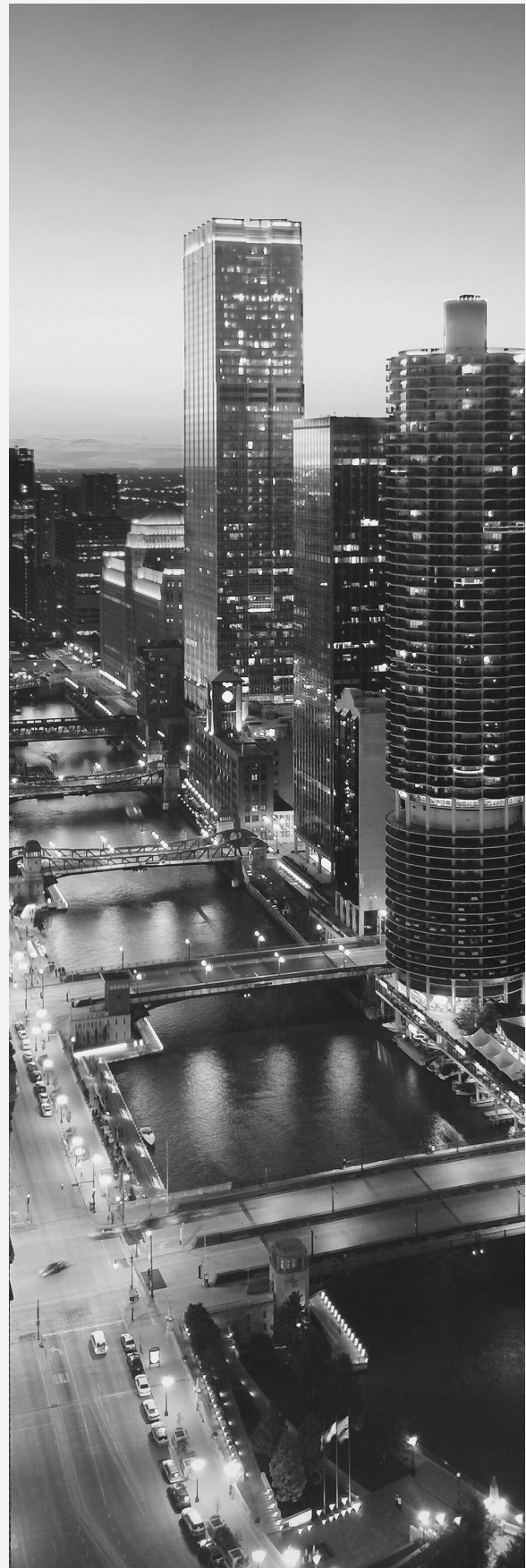


This independently operated hotel can be regarded as a typical "non-standard", as it is neither a chain nor a member of any hotel alliance. Due to its special background and district culture, it has received widespread attention once it opened, attracting tourists from all over the world. The average daily room rate is above RMB1,400, which is regarded as a successful model among independent hotels. We look forward to seeing even more successful non-traditional properties opening in the nearest future.

Brand vs Customer Base

*How do non-standard hotels
attract clients?*

You may already have a certain understanding of non-standard hotels after reading these cases. However, the question persists: how do independent non-standard properties like Songtsam get customers? In its nature, this question is similar to that of a chicken and an egg. Does the hotel obtain the customer source first or does it initially develop its brand?





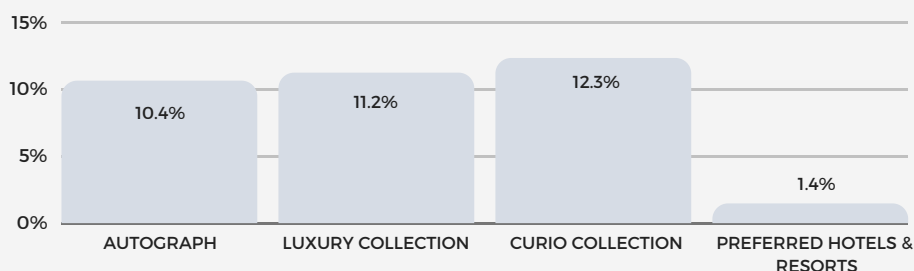
Why Soft Brand

The biggest difference between soft and hard brands lies in the personalization of the hotel, whatever the name, design, or service standards may be. Hard brands normally follow the standards stipulated in the brand manual and may be eliminated if those are not fulfilled in a correct manner. Soft ones, on the other hand, also distribute their standards but in a more recommendatory fashion. Hotels under the soft brands have their own personalities and stories, which is why they usually retain their original names, thus reducing the weight of the allegiance to a particular hotel group. Soft brands collect hotels like stamps or celebrity signatures, each one having its own meaning and value. On the other hand, after joining such a brand, the hotel will be able to increase the number of its booking channels, achieve better representation through the official sources of the brand group, add the suffix brand name on the OTAs, improve its search rate, and achieve better competitiveness. Compared with the cost of joining a group, hotels that opt for developing sales channels and marketing independently usually end up spending much more. There are also some independent hotels that are willing to join because they consider large groups to be able to help properties provide stable operations and support; for hotel management companies, whose projects are affected by regional restrictions or are located in destinations with strong cultural stories, soft brands may become one of the best options.

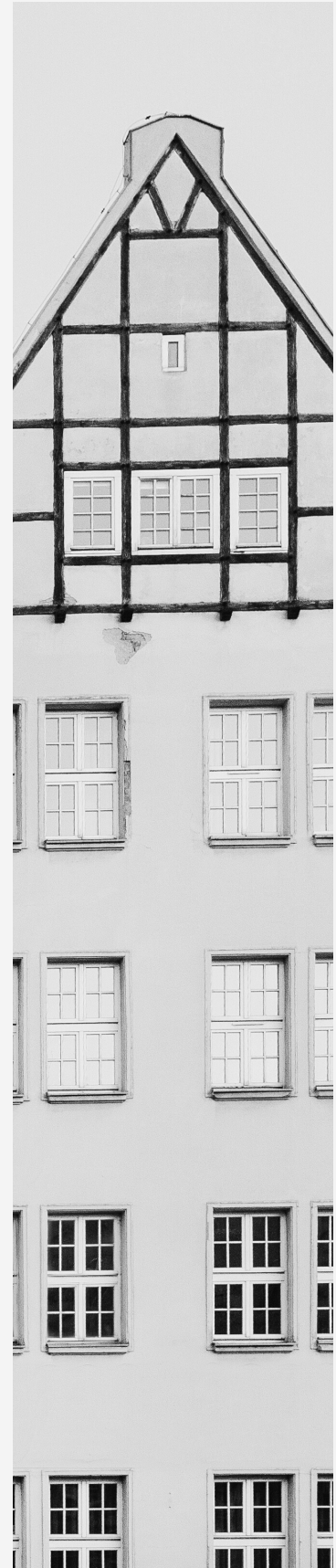
Why Hotel Association

Another option for non-standard hotels is to become a member of a hotel association. Hotel associations are not responsible for operating properties but are of help in terms of marketing and distribution. They normally provide service review mechanisms, sales services, global marketing support, public relations promotion, third-party booking platforms, and global distribution systems for their affiliated hotels, so that the properties joining the association have a certain quality of endorsement. Although joining a hotel alliance requires a certain fee, these fees are still very attractive compared to the development of the content mentioned above in an independent manner. Moreover, hotel associations also have vigorous quality control systems and make sure that the services and hardware of the global franchised hotels stay above a certain standard. Here, we selected several soft brands and a certain hotel association to compare their costs (shown in the figure below). The big difference in the premium is explained by a much smaller package of services provided by a hotel association compared to that of a soft brand chain.

PARTNERSHIP COST BY ROOM REVENUE (%)



SOURCE: ALLIANCE HOSPITALITY AND 2019 HOTEL FRANCHISE FEE GUIDE BY HVS

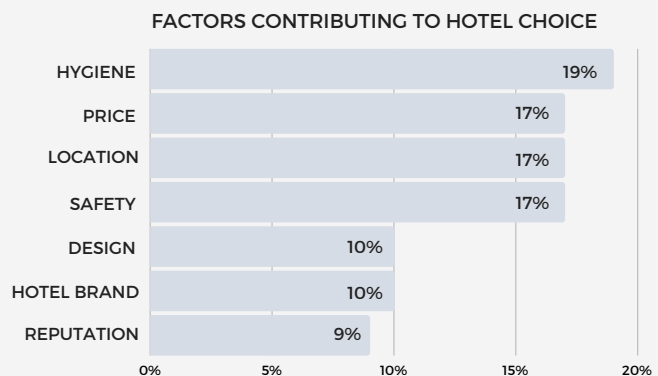
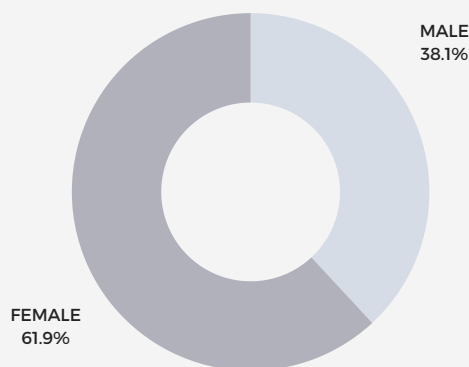


Market Research

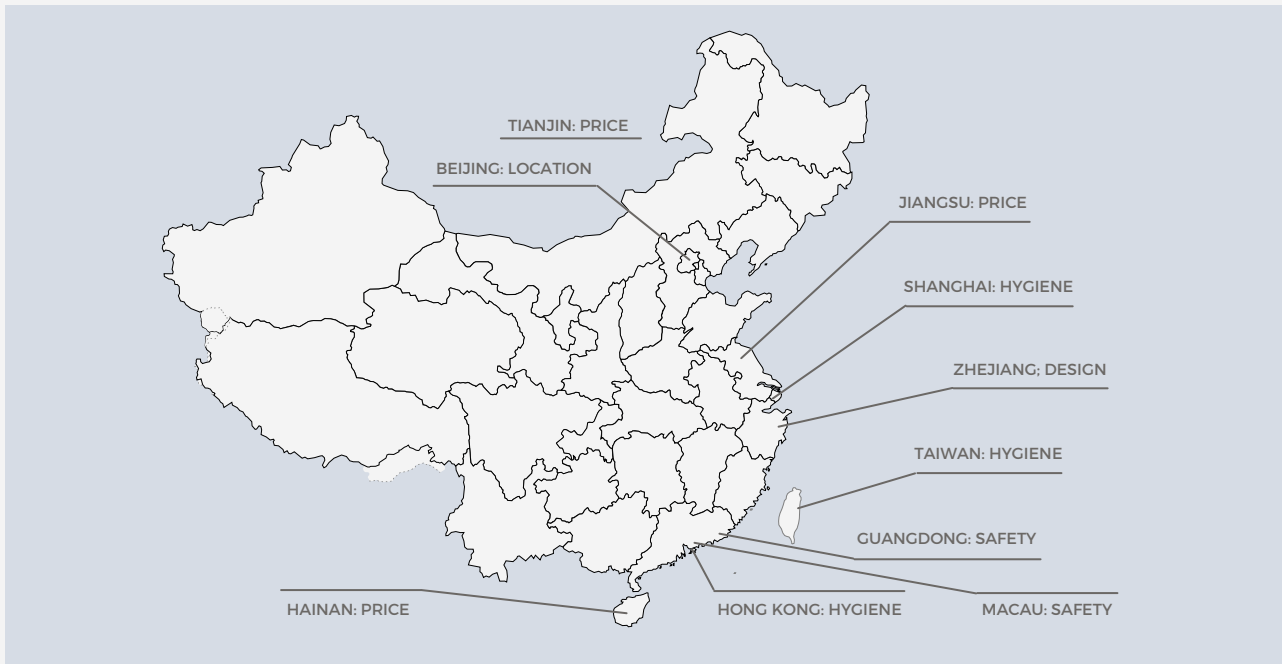
In order to have a more in-depth understanding of existing consumer traits and needs, we issued a market research questionnaire for Greater China (including Hong Kong, Macau, and Taiwan), for which 200 valid responses are available.

What do consumers care more about when choosing a brand?

A bit over a third of respondents are male and most of the participants are located in Shanghai and Guangzhou, together accounting for 57%. The average accommodation budget is between RMB300 and RMB999, with a lower budget of RMB300-RMB599 being preferred by only a third of the respondents in this financial bracket, meaning that mid-to-high-end prices are more likely to be favored by consumers.



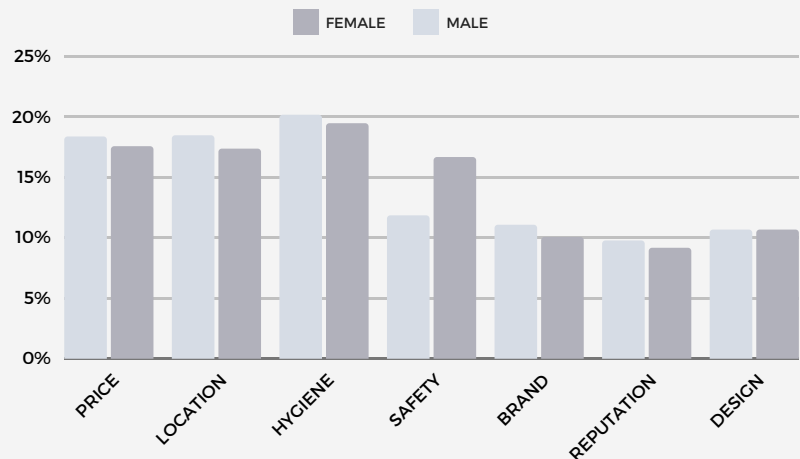
One of the most interesting pieces of data gathered is tied to the guests' preferences when it comes to accommodation. The factors analyzed are price, location, hygiene, and cleanliness, safety, hotel brand, word-of-mouth/net celebrity index/reviews, sense of design/beauty. The results show that the importance of the first four items (hygiene and tidiness, price, geographic location, safety) cannot be overstated, with hygiene and cleanliness being the absolute winner probably because of the impact of the epidemic.



FACTORS CONTRIBUTING TO HOTEL CHOICE, BY GENDER

With an exception of cleanliness, men and women react differently to these factors.

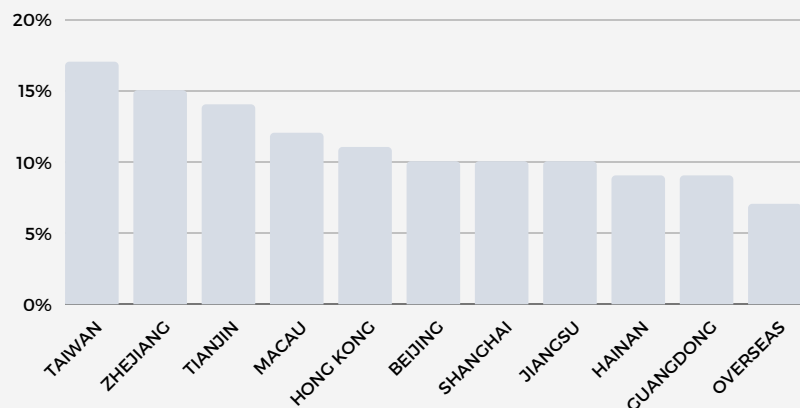
- Men pay more attention to price and location;
- Women are far more concerned about safety than men.



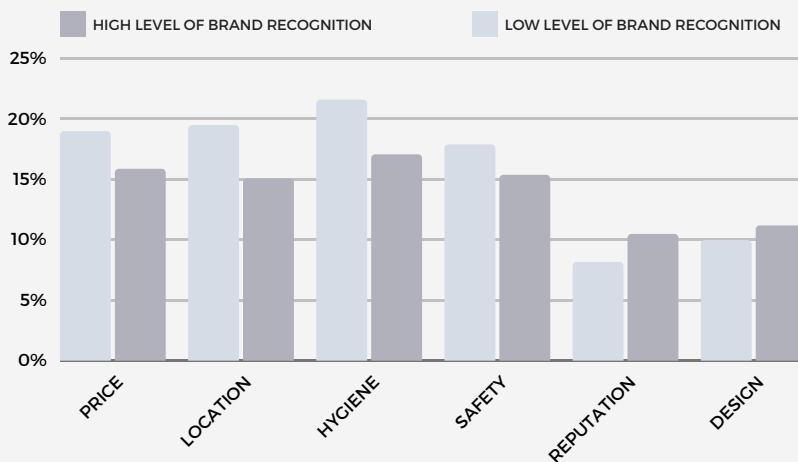
People in different regions also differ in their preferences.

- Residents in Beijing are mostly interested in the location;
- Zhejiang guests are most concerned about design/beauty;
- Consumers in Taiwan, Zhejiang, and Tianjin care dearly about the brand name.

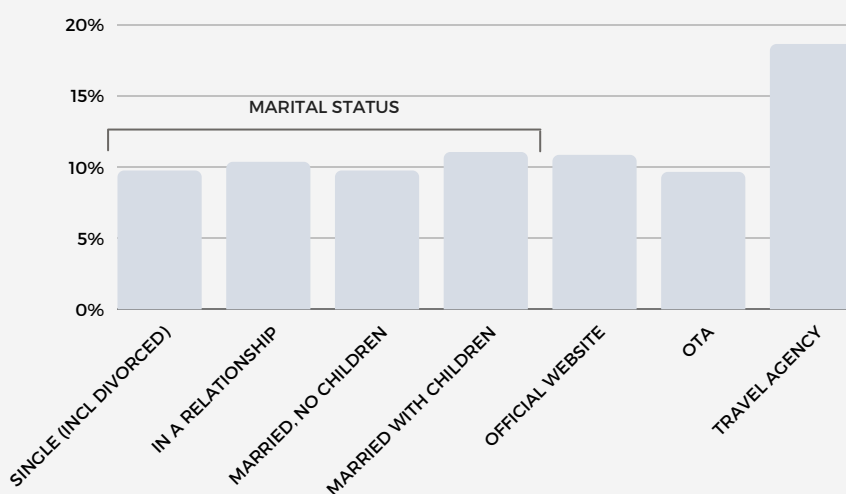
IMPORTANCE OF HOTEL BRAND, BY REGION



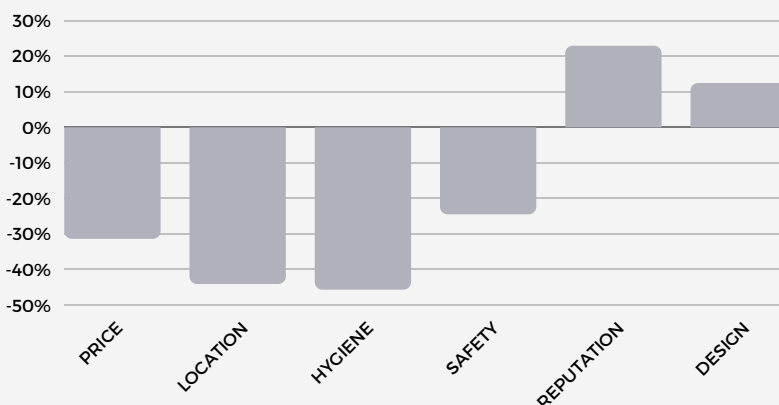
RELEVANCE OF BRAND RECOGNITION TO OTHER FACTORS



IMPORTANCE OF HOTEL BRAND, BY MARITAL STATUS, BOOKING CHANNEL



BRAND AND OTHER FACTORS: CORRELATION INDEX



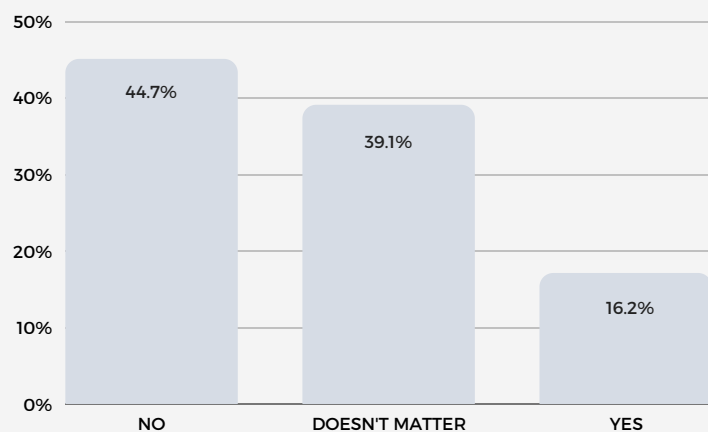
- Those who pay less attention to the brand, pay more attention to the first four basic factors;
- Those who attach more importance to the brand also pay more attention to other factors such as hotel reputation and design. This is due to the strong belief that well-known brands have already endorsed the first four basic factors, treating the OTA feedback seriously and thus reducing the possibility of making a mistake.
- People who are married and have children, who travel frequently, and who prefer to make reservations through official channels are also more influenced by the brand name;
- Brand also matters to those booking hotels through travel agents;
- In terms of booking channels, 71% of people choose third-party platforms.
- The hotel brand and its location are inversely correlated;
- The other three items (price, hygiene and cleanliness, safety) are also inversely proportional and the brand can serve as a justification for having obtained satisfactory standards;
- The more you care about the brand, the more you care about the reputation.



Does the Management Model Matter?

Regarding the hotel operation and management model, only 16% of consumers care whether the business model was management or franchise agreement, 45% do not care at all, and 40% are indifferent. Since this factor does not seem to interest the consumers, we expect more hotels to adopt franchising or self-operating models in the coming future. (For more information about the hotel franchising model, please see our white paper on Hotel Franchise in China).

WOULD YOU CARE ABOUT THE HOTEL MANAGEMENT MODEL?



Conclusion

THE MAIN FEATURES OF THE NON-STANDARD ACCOMMODATION MARKET

With the increase in travel frequency and the transcendence of the consumption habits, which now consist of more than just basic hygiene, safety, and geographical location standards, products focusing on providing a unique experience are preferred by mid- to high-end consumers. From our survey data, we extrapolate the following:

- Hygiene and cleanliness are still the most important factors when choosing a hotel;
- The hotel brand can serve as an endorsement of the basic conditions in the minds of consumers;
- Consumers can give up certain location convenience for the hotel brand;
- Consumers do not care about how the hotel is operated but pay attention to the overall experience and the cost-benefit trade-off;
- Design is now more important than the brand name among mid- to high-end consumers;
- Non-standard accommodation occupies two-thirds of the total supply and major hotel groups have already made attempts to seize the market, which results in a new trend. For example, Atour has launched an IP hotel in cooperation with NetEase; MUJI also opened its own hotel. As the consumer market continues to change, more and more personalized non-standard accommodation will appear.

THE ROAD TO HARD BRANDS IS GETTING NARROWER

With the rapid development of major hotel groups in China, hard brands are about to reach the point of saturation in the first-tier cities, while their high management costs and stringent requirements will turn even more owners away. And with the accumulation of domestic managers' experience and the continuous improvement of their own capabilities, hard brands that have been fascinated by people will no longer be the first choice.

Conclusion

SOFT BRANDS WILL BE A SOLUTION FOR SOME NON-STANDARD PROVIDERS

The main difficulty many non-standard accommodation owners experience is the lack of suitable sales channels and stable talents to manage operations. Although joining a hotel alliance could help with the former issue, it would not streamline operations. For those who are seeking to manage both, signing their hotel up for a soft brand may be the optimal solution.

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