

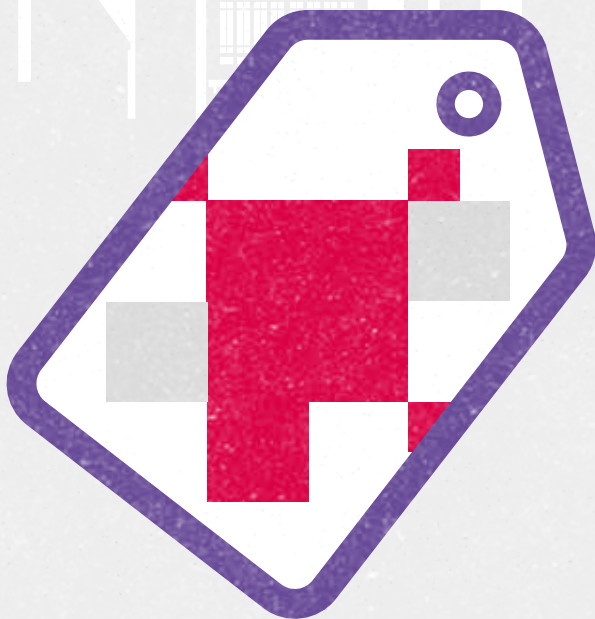


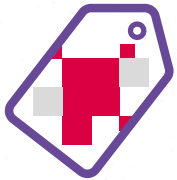
Grant Thornton

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EXTRACT FROM **HOTELS 2020** WITH UAE INSIGHTS

New business models: *disrupting the disruptors*





New business models: disrupting the disruptors

Hotels have largely been dismissive of any threats to their core business model over the past five years. But by 2020, the exponential growth of various online platforms will have forced them to change and innovate—or force them out of business. The good news is that traditional hotels have numerous options at their disposal: rethinking the experience they offer, unbundling pricing, setting up new partnerships and more.

The past twenty years have seen a lot of changes in the way hotels are marketed and sold, not least thanks to OTAs and price comparison sites (and apps). “Six years ago, there were 20 million reviews on TripAdvisor. Last year, there were 170 million. When something is growing at that rate, you have to ask what it will be like in 2020,” says Adrian Richards, national leader of hospitality and tourism at Grant Thornton UK.

But the latest threat to the industry started off in an unlikely place: people’s sofas. What was initially a means for people to find a spare bed in a new city has rapidly evolved into a highly traded marketplace, with everything from flats to castles on offer. The biggest of these is Airbnb. It acts as a platform, without the need to own, develop or maintain any rooms of its own. “This holds huge ramifications in terms of the speed at which it can scale,” says Ramón Galcerán, a partner at Grant Thornton Spain.

Until now, though, the hotel industry has largely dismissed the sharing economy. But the numbers are telling. Between February and December 2014, Airbnb’s stock of available rooms expanded from about 300,000 to over one million¹. This puts it ahead of InterContinental Hotels Group (IHG), Hilton, and Marriott as the world’s biggest provider of rooms.

In the United Arab Emirates (UAE) which is known for its luxury hotels and incomparable hospitality, Airbnb is also on the rise. The Emirate has a relatively young population, with innovation high on the government’s agenda coupled with the increased demand for affordable hotels – Airbnb

¹ ‘Airbnb will soon be booking more rooms than the world’s largest hotel chains,’ Quartz, 20 January 2015

³ ‘Airbnb demand grows in the UAE,’ Gulf News, 23 October 2015

⁴ ‘Airbnb will soon be booking more rooms than the world’s largest hotel chains,’ Quartz, 20 January 2015

Over 1 million

rooms available via Airbnb by the end of 2014, up from 300,000 earlier in the year⁴

seems to be fulfilling a long term need. “The company has 2,000 properties listed in the UAE, mainly in Dubai. It has seen a 93 per cent increase in the number of listings in the UAE over the last year” according to Gulf News².

“Analysts expect demand for homes on Airbnb in Dubai to grow in the coming years, as the number of tourists in the city increase, which is currently growing at around 10 per cent annually”², according to the Department of Tourism and Commerce Marketing (DTCM). Historically, local hoteliers would see the likes of other competing brands as competitors, but the emergence of Airbnb in the UAE has seen them being known as a ‘disruptor’ which now competes with renowned local brands to attract the guests of tomorrow.

Of course, Airbnb remains a relative minnow in terms of actual guest bookings. A recent Barclays report estimates that Airbnb sold about 37 million room-nights last year; by contrast, IHG sold 177 million³. Yet Airbnb was only founded in summer 2008, while IHG traces its history back to 1777.

Furthermore, there are still differences across regions. Alvin Wade, national leader of hospitality and tourism at Grant Thornton US, says, “to me, millennials would be more interested in Airbnb. I think that it’s a long way from posing a significant threat in the US.”

Yet, as millennials grow in influence, we can expect Airbnb to make a more pronounced impact between now and 2020. As Frank Croston of Hamilton Hotel Partners puts it, “in my business, all of the sub-35s are booking holidays via Airbnb or similar. That’s a bit scary, not least as they’re all in the hotel industry themselves.” Robin Sheppard of Bespoke Hotels adds, “Airbnb is here to stay and we need to get used to it.”

343%

growth in number of unique visitors to Airbnb’s website between June 2012 and June 2014⁷

5 ‘Hotels – UK,’ Mintel Group Ltd, October 2014

6 ‘Inside Airbnb’s grand hotel plans,’ Fast Company, 17 May 2014

7 ‘Hotels – UK,’ Mintel Group Ltd, October 2014



“The Middle East market gives operators the opportunity to innovate and build different operating models from the start. This is because many groups in the region are scaling up quickly to satisfy rapidly escalating demand.”

Hisham Farouk
CEO, Grant Thornton UAE

Wait and see

Thus far, hotels have largely adopted the strategy of ignoring the platform, or hoping regulators will solve the problem for them by requiring health and safety compliance, and to charge taxes on listings. Greater regulatory oversight is likely inevitable by 2020, but it is unclear to what extent this will slow the growth of the sharing economy. Many hoteliers also believe that sites like Airbnb operate in a fundamentally different niche to theirs: it's not for business travellers, they argue, it's just for students looking for a spare sofa, or people willing to share a room.

But if hotels do not adapt by 2020, we believe they will face significant disruption. First, regulatory change is easing in some markets: in June 2014, for example, the UK removed a 1970s rule that required Londoners to apply for planning permission if they wanted to rent out their homes for less than three months⁵. In the UAE, the law to regulate the holiday home market was introduced in 2013, with the aim to help the emirate achieve its target of welcoming 20 million visitors per year by 2020, which further leads way to Airbnb. Airbnb's strategic goals for 2015 show clear plans for global expansion

including introducing cleaning services; key handovers; and 'business-ready' listings⁶.

“This is a big threat to the major hotel brands.”

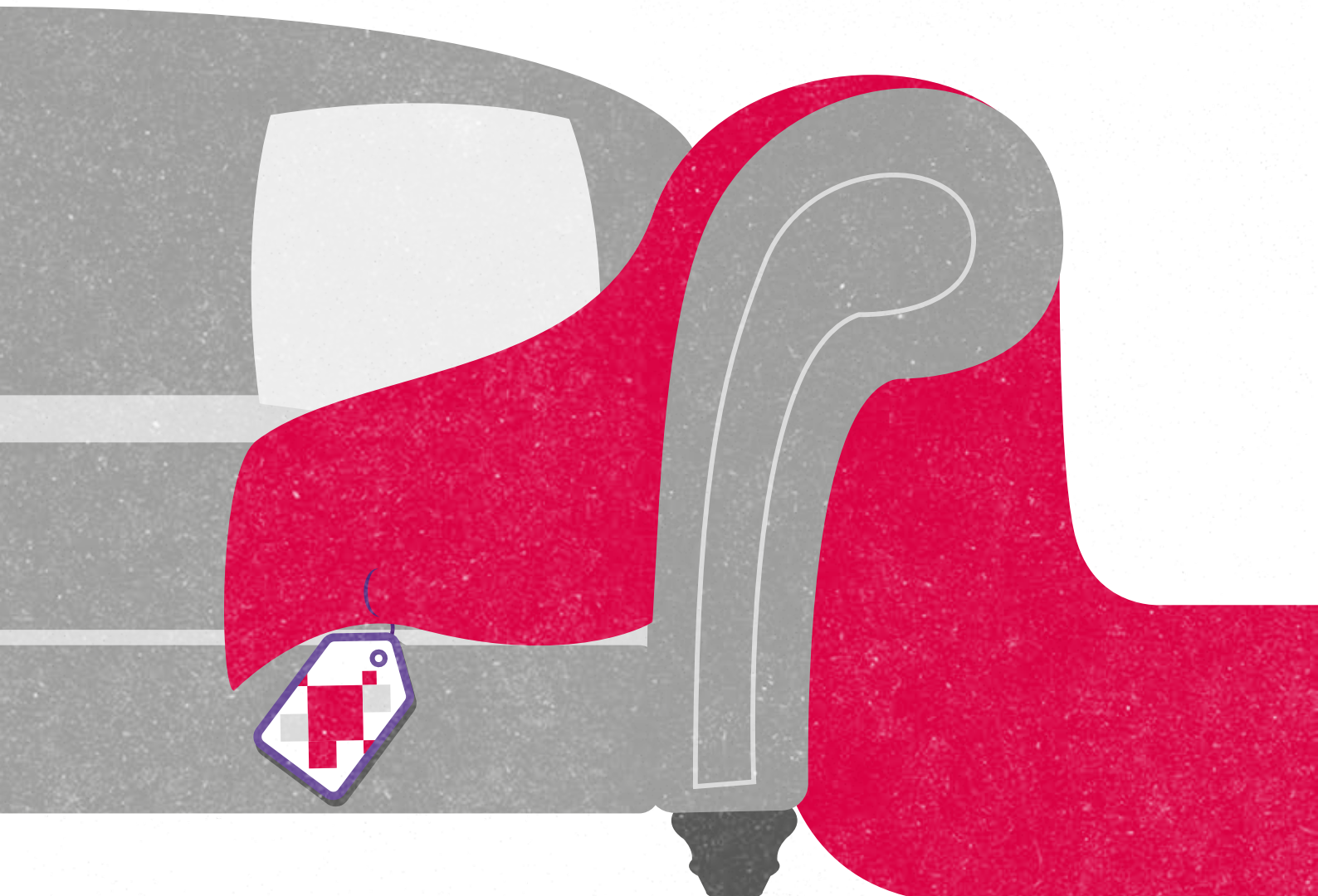
Gillian Saunders

Global leader of hospitality and tourism, Grant Thornton

“Millennials expect companies to make their lives more convenient. This trend will only intensify over time. If Airbnb develop these add-on services through their mobile platforms before hotel companies and OTAs master this, it will become increasingly attractive for a wider set of consumers,” she explains.

Of course, awareness is growing rapidly. Carlson Rezidor's Eric de Neef is open about the challenge: “Airbnb is clearly a disruptive operator. It will change the way we're looking at our business. We need to understand what guests want, and we need to evolve our business model,” he says.

It is also important to note that there is currently greater opportunity in some regions



than in others. As Hisham Farouk, CEO of Grant Thornton UAE, explains, “The Middle East market gives operators the opportunity to innovate and build different operating models from the start. This is because many groups in the region are scaling up quickly to satisfy rapidly escalating demand.”

Response strategies

So what can hotels do? In a word: innovate. Unlike Airbnb, which has no control over its listed rooms, hotel groups can introduce new services and room offerings – and market these on the back of their powerful brands.

Already, new rivals are emerging, and more will follow between now and 2020. Spain’s BeMate.com is one example, which delivers a new hybrid accommodation offering. It offers over 2,500 rooms that combine the freedom and flexibility of an apartment with the services of a hotel. “I think the traditional hospitality industry hasn’t bet enough on innovation,” says Enrique Sarasola, the site’s co-founder.

BeMate’s innovative approach cooperates with hotels. It selects apartments close to hotels, which can use their services, while splitting revenues. It also aims to provide a more local service: “The customer has new needs, traveling with children, pets or with their elders. They want to live like a local and not as a guest,” says Sarasola.

Collaborating with new ventures could be one approach for hotels. But many will seek to reinvent the services and attractions they offer. “We see room for both Airbnb and more traditional hotel chains,” says Gillian Saunders, global leader of hospitality and tourism, Grant Thornton. “Millennials in particular seem to feel they get a more real experience of a place if they stay in a flat or apartment within a city rather than a hotel. Hotel brands can respond to

these disrupters on both price and experience.”

For example, Miami’s Eden Roc hotel recently agreed a deal with Nobu, the high-end restaurant group, to provide all food and beverage on site⁸. A related trend has been to offer more ancillary services, with some hotels even selling their own branded beds and pillows.

Pricing

Hotels will need to do more to reinvent their pricing. For example, adoption of techniques such as dynamic pricing has been relatively slow. The unbundling of room pricing is also moving too slowly.

Some are responding, though. Hilton Hotels announced last summer that its loyalty members would be able to select a specific room when booking, which it rolled out across over 650,000 rooms worldwide last year⁹. By 2020, this kind of choice will be expected by guests. “This level of personalisation, where you can select your room, select your view, choose the minibar, that’s the level of personalisation where brands can score heavily, but it requires them to invest in their own website, mobile platforms and technology,” says Colin Feely, hospitality and leisure partner at Grant Thornton Ireland.

In some segments, more could also be done to price in optional services. Westin, Amway Grand Plaza, Seven Springs, are just some of the brands that now offer vouchers, loyalty points or discounts for guests who don’t require daily cleaning¹⁰.

“We expect to see more personalised pricing,” says Amadeus Hotels Management’s spokesperson. “This means allowing each and every valuable component – whether a specific type of bed, a late checkout or a ‘grab and go’ breakfast – to be priced and offered in different combinations via different channels.”

8 ‘Nobu will open new hotel in Eden Roc Miami,’ Travel Agent Central, 10 December 2014

9 ‘Hilton revolutionizes hotel experience with digital check-in, room selection and customization, and check-out across 650,000-plus rooms at more than 4,000 properties worldwide’, Hilton Worldwide, 28 July 2014

10 ‘Make your own bed at some hotels and get a reward,’ Reuters, 14 October 2014

11 ‘Inside Airbnb’s grand hotel plans,’ Fast Company, April 2014

99%

of countries with at least one Airbnb room on offer. Compared to the most expansive hotel chains IHG and Starwood, which offer rooms in 52% of all countries¹¹



Five innovation questions for hotels

- 1 How clear are you about your unique selling point for your target demographic, or are you trying to be all things to all guests?
- 2 How could you effectively unbundle your pricing, or introduce more dynamic pricing elements?
- 3 Are there new partners you could engage and experiment with, to refresh your hotel offering, such as in the F&B space?
- 4 Are there more radical business model adjustments you could consider, such as setting up wholly new room or service offerings?
- 5 What more could you do to create a more integrated online-offline offering for guests?

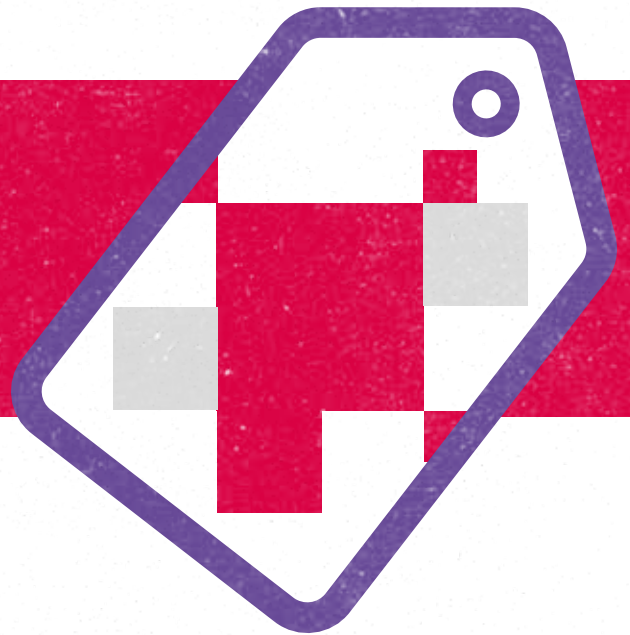
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