Innovation in hotels and hospitality

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Hospitality is a dynamic industry, constantly changing to meet guest expectations. As a result, a premium is placed on innovation. Hotel owners and operators are always on the lookout for new products that can meet and even anticipate the evolving needs of guests.

Changes in guest desires and preferences, new technologies, the rise of millennials and Gen Z professionals as a significant segment in the travel and leisure market, changing travel patterns, and the entrepreneurial nature of the hospitality industry mean the physical and service standards of what defines a hotel at its most basic level have expanded beyond the notion of the traditional 'bricks and sticks' concept. A number of factors have triggered recent innovations in hospitality and in how we define and choose hotels.

**Technology and the rise of the smart hotel**

Digital innovations including mobile booking, check-in, payment and in-room service have become popular with busy travelers, particularly the younger generation. Easy anywhere/any time online access has become the expected standard, which has changed the concept and necessity of the front desk and other service aspects of the hospitality industry.

Other cutting-edge technology innovators include artificial intelligence and robotic butlers, and guest management software that works using a personal profile that anticipates guest needs before they arrive. Scent technology is another modern device, scenting a venue with a brand-identifying smell that elicits a feeling in guests connecting directly to memory.

**The impact of internet marketing and distribution**

The availability of internet marketing has led to increased competition and created pressure on room rates. In addition, the delivery cost for getting customers into hotels has changed significantly with the emergence of booking websites and online travel agencies (OTAs), which can charge hefty commissions.

OTAs do more than just sell hotel and vacation packages; they have significant influence over consumer behavior, not only by informing them about travel destinations and hotel brands, but also by perpetuating a belief that guests will receive the best price if they book through third parties. While direct bookings through hotel websites is up from past years, about 50% of all bookings are still made through OTAs.

**Sophisticated consumers want a hotel to connect with community**

Thanks to OTAs and technology in general, today’s consumers are more sophisticated and better educated than a decade ago. With online ratings and ever-more international travel, consumers have the ability to research and
better understand their options. Increasingly, they are looking for a sense of local character and connection with the local community in their hotel room and their stay. This trend has begun to redefine hotels away from the brand uniformity of the past, with community interaction rather than brand being the focus of the hotel experience.

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Staff must be knowledgeable about local experiences and opportunities, for example, which might include meeting with a local artist or touring a distillery with its production manager.

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Combining business and pleasure travel

'Bleisure' is a new portmanteau word referring to the practice of taking a business trip and adding a few days of vacation at the end. Combining work and play is a popular trend, especially among younger travelers who want to spend time sightseeing after their meetings.

Impact of the sharing economy

Peer-to-peer lodging platforms continue to shape the global hospitality industry for both leisure and business travelers. There has been a proliferation of options in this segment of the market and innovative hotel companies are getting into the game. As for regulation, peer-to-peer players are increasingly subject to the same rules, regulations and taxes as those imposed on traditional hotels, closing the gap between hotels and alternative lodging platforms. A significant effect of the advent of the sharing economy on traditional hotels is that room rates during high occupancy compression nights, when hotels typically make their highest profits, have fallen in recent years in the largest US hotel markets. This is because when hotels are fully booked, travelers are tending to book alternative lodging sources, shrinking demand and making premium pricing harder to hold. While sales derived from this segment of the market still tends to target leisure travelers, with hotel companies entering the picture, the business travel market in this area may expand.

If these are some of the major trends in recent years, then what are today's innovative hospitality products, and how do they differ from more traditional offerings?

Growth of boutique, lifestyle and soft-brand hotels

Enhanced consumer awareness and travelers' desire for genuine local experiences has led to an increase in niche hotels:

- **Boutique**: independent or part of small groups.
- **Lifestyle**: nationally franchised.
- **Soft-brand**: signature hotels, individually named and branded, but affiliated with a major national franchise distribution system.

These hotels have reported some of the highest occupancy, revenue growth and profit margins of any segment of the hotel industry over the past few years. Further, given that most of these hotels are located in key metropolitan areas such as New York, Los Angeles, Miami and San Francisco, there's plenty of room to grow. The design of rooms in the boutique and lifestyle sector is changing to a model of smaller rooms and expanded working and socializing spaces. Some of these hotels have limited in-room services – no room service or concierge – but offer a high-quality product with services concentrated in the hotel public spaces.

Wellness is catching
For many guests, feeling good while traveling has grown from a concept to a required element of modern travel. Hotels have responded by integrating health and wellness features into hotel design and room features, such as biophilic design, which incorporates natural lighting, view of nature, use of sustainably sourced material, living green walls and vertical gardens, and generally an increased exposure to nature. Biophilically designed spaces not only help guests feel better but can impact a hotel's bottom line through lower energy costs. Various design elements enhancing wellness are also being incorporated into guestroom interiors.

**Experiential travel**

The desire to integrate travel experiences with the local community has led to the proliferation of experiential hospitality options. Airbnb has enhanced its stays by launching Airbnb Experiences, structured as peer-to-peer, offering unique local experiences curated by individual hosts such as meals, music and tours, and partnering with local nonprofits to provide unique Social Impact Experiences. Trips can be booked through Airbnb's mobile app with or without an Airbnb stay. Following the trend toward one-stop travel, stay and tour experience, Airbnb, through its app and highly anticipated public offering, has plans to morph into a super brand of travel with combined travel-related services on a single platform.

**Sharing economy meets hotel**

Innovative hoteliers are adopting home sharing platforms as alternative distribution channels for hotel inventory. This allows lodging operators to reach new customers while reducing distribution costs associated with OTAs. For example, Accor operates three luxury home-rental divisions – Travel Keys, Squarebreak and onefinestay (recently grouped together under onefinestay) – as alternative hospitality product options. Marriott has also expanded its portfolio to include select luxury homes through its launch of Homes & Villas by Marriott International; Marriott will act as a distribution platform for select property management companies.

**Co-working meets hotel**

One of the newest and most innovative trends is the growing number of co-working spaces in hotels, and co-living hotels. These concepts create space for both work and play, incorporating the guest's desire for connection and social opportunities while traveling. Business travelers are increasingly utilizing co-working spaces in hotels, and both co-working and co-living spaces are beginning to shift the primary focus of hotels from guest rooms to public spaces such as the lobby.

While co-working spaces in business settings is not new, co-working spaces in hotels is a fairly new concept. Always the innovator, Accor recently announced its entry into the co-working space through its WOJO brand. WOJO offers three different co-working options: WOJO Spots provides options to work at the bar, in a restaurant or in the lobby, for hotel and non-hotel guests alike. For regular coworkers, WOJO offers a monthly subscription, which includes a discount on dining and access to partner offers, events and workshops. WOJO Corners provides dedicated co-working spaces designed for uninterrupted work in an informal and comfortable environment. WOJO Corners will be located across a broad range of hotels as a first step, with anticipated expansion to train stations, airports and shopping malls. WOJO Sites provides an all-in-one co-working solution through unique standalone spaces in dedicated buildings, combining communal zones (bars, lounges, kitchens) with shared spaces, meeting rooms and dedicated offices, with the option to rent offices and receive a wide range of services.

**Pop-up hotels**

In search of the rare and unexplored experiences, a new concept of pop-up hotels has emerged. Many pop-ups are making their way in places off-limits to traditional hotels, catering to high-end clientele who can afford the price of exclusivity. Accommodation runs from tents to shipping containers. An example is Blink, offered by tour operator Black Tomato. Blink's model is to establish pop-up accommodation in remote or otherwise hard-to-reach locations worldwide, customized to suit a client on a particular Black Tomato trip. Customers stay in the pop-up hotel for a short time before it's taken down. Blink is touted as "the chance to design your own temporary accommodations and experiences in locations so private and untouched that no one else will have stayed there before and never will again in the same way... There for a moment and then gone. Blink and you'll miss it."
Some pop-up hotel concepts involve tents, yurts or other glamping accommodation offered in changing locations, and have been popular at music festivals. Marriott has entered the mainstream of this concept by offering Marriott-themed luxury safari tents at the Coachella music festival designed to look like a W hotel room. The package included luxury services allowing access to guest viewing areas, concierge and golf cart shuttles, as well as food and beverage options. Perhaps the oldest pop-up accommodation concept is the ice hotel, which had its origins in the late 1980s in Sweden, and has since spread to nations including Canada, Finland, Japan, Norway and Switzerland.

**Innovation creates new legal challenges**

All innovation raises new legal challenges, often due to the fact that new product types do not fit the conventional definition and legal framework of a hotel. This makes compliance with local laws a challenge. Further, as cities struggle to define and regulate these new product types, enforcement of laws and regulations may vary by jurisdiction. As counsel to clients involved in this space, we often are faced with fitting a square peg into a round hole and must be creative in considering where these products fit into the legal and regulatory landscape.

**Zoning restrictions and private covenants.** Most cities and counties have zoning or administrative codes that designate areas of the city that can be used for short-term transient use. Depending on the length of stay, providing transient accommodations in residential areas can be problematic. This can be an issue, in particular with peer-to-peer rentals and pop-up hotels. In addition, planned communities and condominiums may have private CC&Rs that limit or prohibit rentals altogether. Review of the applicable zoning plan and private covenants is critically important as a first step in advising any new hybrid hospitality product.

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**Licensing and permitting; transient occupancy compliance.** Many cities have become savvy to peer-to-peer rentals and regulate such rentals by requiring hosts to register or obtain a permit or license before listing a property for short-term rental or accepting guests. This includes disclosure and payment of transient occupancy tax (TOT) on the rentals. Traditional hotels obtain operating permits and pay TOT as part of their ordinary operations, but smaller operations or moving operations are hard to monitor. Cities have reacted by prohibiting transient operations in some areas or by heavy regulation, which may include imposing monitoring obligations on the platform coordinating the rentals. Indeed, some operations are not clearly residential or hotel and may combine both transient and longer term rentals, which can make regulation tricky.

**Compliance with regulations governing rentals.** Rental control ordinances may apply to certain categories of rentals: regulation is typically related to length of stay and number of rental units. Hybrid products such as co-living and co-working hotels may not fall squarely within or outside these regulations. In addition, certain accommodation may have attached affordable housing requirements, which can be violated when renting at non-market and transient rates.

**Environmental concerns.** Traditional hotels and building structures typically go through a lengthy environmental and development impact process prior to approval. Hotels are vetted by local, state and federal agencies, and require mitigation of the impact of development on the environment and the community. This vetting generally involves a public process that allows the community and interest groups to voice their views regarding a proposed project, allowing for adjustment of the development plan. Pop-up hotels, given their transient nature, generally don’t go through this vetting process, which may be impactful on the community and out of compliance with zoning codes and environmental regulations. Most pop-up hotel companies that I reviewed understand this concern and incorporate some form of environmental leave no trace concept as part of their platform. Peer-to-peer rental platforms may impact the neighborhood by turning residential neighborhoods into transient, and impact parking and street traffic. In mitigation, some cities limit peer-to-peer rentals to a maximum number of nights per year.

**Life safety concerns.** Health, life and safety concerns are an important part of the regulation of any type of public accommodation. Hotels are subject to heavy scrutiny and regulation in this regard, and these concerns are...
incorporated into hotel brand standards. Hospitality products that are temporary or not clearly designated as hotel may bypass these important aspects of regulation, leaving health, life and safety concerns in the hands of the hosts or host companies with little to no oversight.

Looking ahead

It's important during this exciting time of innovation to seize the moment and creatively adapt to the changing concept of hospitality, capitalize on new trends and expand market share. While new hospitality market disrupters may threaten traditional hotel business models, they also present an opportunity for new products in an industry that has always prized itself on innovation and creativity. Business and leisure travelers alike are now demanding the inclusion of new hotel products in their travel. It will be up to the hospitality industry to continue to innovate and incorporate new concepts into its platforms, formats and brands.

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