

Reposition for higher returns

Repositioning can take several forms, but is ultimately designed to ensure a hotel still meets its market demands. Strategic Hotel Consulting managing director **Tea Ros** explains how



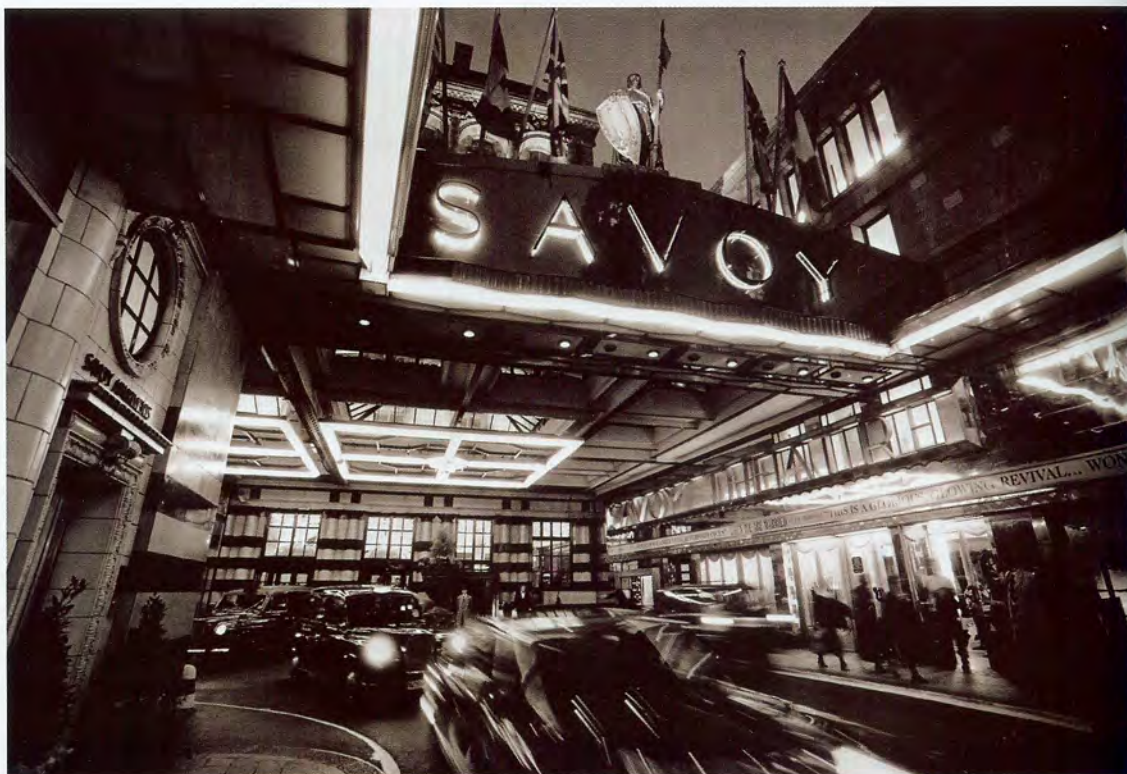
COLUMNIST

Hotel repositioning has become a hot topic over the past couple of years as changing market dynamics and external economic forces have left many owners wondering what to do with diminishing cash flows and investment returns. Many have identified repositioning as one possible answer.

Repositioning should not be confused with renovations, refurbishments or standard property upgrades. Instead, it involves thorough research into demand dynamics and supply side issues and identifies opportunities for a property to position itself in a way that optimises revenue streams and maximises returns. Repositioning does not always have to be capital intensive and, with innovative ideas and astute reflections, relatively small changes can produce effective results. In other cases, if, for example, one was to reposition a four-star into a five-star hotel or to turn a traditional corporate city hotel into a bohemian boutique property, significantly higher investments could be required.

EXISTING EXAMPLES

Hotel repositioning within the Middle East has so far been relatively limited, largely because many markets are still emerging and properties are mostly new. However, some repositioning exercises have been conducted. The Crowne Plaza in



Change is good: The Savoy in London, which is now a Fairmont managed hotel, reopened in October 2010 after intensive investment and repositioning by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, chairman of Kingdom Hotel Company.

Salalah repositioned from a mainly corporate Holiday Inn into an upper segment resort successfully targeting European charter tourism. Similarly, the Sheraton in Abu Dhabi repositioned from a city hotel to a resort-type facility to target more leisure clientele.

More recently, the Al Bustan Palace in Muscat is going through a repositioning exercise to offer a luxury boutique product, similar to the Nile Hotel in Cairo, which is repositioning into a top-end hotel with Ritz-Carlton branding.

There have also been several examples in Syria and Iran where small guest houses have been converted and repositioned into boutique hotels — many of which are now achieving some of the highest rates in the market. Similar cases could soon be seen in Saudi Arabia, given the country's recent collaboration with Spain's Paradores, spe-

cialists in turning historic buildings into hotels.

Apart from the individual properties, repositioning can be also done on a brand level as demonstrated by Accor, which last year repositioned Sofitel into the luxury segment and Italian hotel brand Baglioni, which repositioned its hotel portfolio to achieve higher consistency. Similarly, destinations can go through repositioning, as has recently been the case with Seychelles (repositioned for stronger MICE) and Tunisia (which was repositioned for special interest tourism).

INCREASED ACTIVITY

While many existing properties have not (yet) been repositioned in the Middle East, there has been a significant undertaking of hotels planning repositioning activities. Many owners and investors have started to question their hotel posi-



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tioning plans that were perhaps designed during the years when markets were strong and seemingly nothing could fail. Many of these development plans have been sitting on shelves for the past few years, but now that improving market conditions have encouraged investors to re-activate plans, the original property positioning is being critiqued with questions such as "Where did the positioning originate from? Is it still relevant? How have demand patterns and trends changed? Would repositioning bring benefits?"

If there is a repositioning potential in the wider Middle East, how about the assets owned by Middle Eastern investors around the world? In short, the opportunities are endless as demonstrated by Jumeirah repositioning the Essex House in New York and His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud carrying out one of the most expensive and impressive repositioning exer-

cises with George V in Paris and, more recently, with The Savoy in London. The more mature — and often stagnated — hotel markets in Europe and North America have an abundance of assets that have enormous potential but are hopelessly dated, many with equally dreadful performance. Many of these once glorious hotels are in desperate need of repositioning, as they have been unable to respond to changing demand dynamics, consumer trends and client expectations. This is not only about renovations and upkeep, but also about positioning of the property.

SUCCESS STORY

If you are still wondering what hotel repositioning is, take heed of this story. I recently had lunch with a Gulf investor who told me about a hotel acquisition he had made in Europe. The previous owner had run the hotel as a spa rejuvenation resort for decades and was determined to continue doing so — until

diminishing demand and decreased cash flow forced him to sell the hotel. He felt it was all due to a marginally outdated product offering and his advice to the new owner was to carry out renovation work and perhaps just slightly reinforce the existing spa offering.

The Gulf owner — who is a shrewd investor, not a hotelier or someone with substantial hotel experience — had other ideas. He felt that since he had already invested millions into the property it was perhaps worth investing a little more to find out what the market was actually looking for. He carried out a repositioning analysis, which came back with a recommendation to turn the facility into a conference hotel. The wellness demand in the area had disappeared — most of it to new destinations.

At the same time, tax rates in the area had been reduced, industries in proximity to the hotel had developed and more corporations had set up offices. These companies had

nowhere to host meetings, conferences, exhibitions and other corporate events. The market positioning analysis identified this opportunity, the investor turned the hotel from a spa resort into a conference facility and within a year had turned a loss-making property into a successful operation with positive cash flow. That is hotel repositioning. **PAVE**

ABOUT TEA ROS

Tea Ros is the managing director of Strategic Hotel Consulting, an international management consulting firm specialising in hotel and tourism investments. Strategic Hotel Consulting provides advice to owners, investors, developers and operators on how to optimise project investment, enhance asset value and maximise profitability. For more information, please see www.strategichotelconsulting.com or contact tea@strategichotelconsulting.com

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