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Hilton tweaks Tru to keep development costs in check

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Alexandra Jaritz, global head for Tru by Hilton, says the brand has been value-engineering some aspects of its development to contain costs and plans to introduce a new prototype as it experiences fast-paced pipeline growth.

By Jeff Higley

ATLANTA—A fast-paced launch of the Tru by Hilton brand hasn't kept its management team from tinkering with the prototype in an attempt to keep development costs in line with the projections announced when the brand was unveiled.

Tru has 16 properties open and 470 deals in various stages of development, said Alexandra Jaritz, global head for the brand, during a break at the recent Hunter Hotel Conference.

"We are going to be opening more than 50 this year, and by 2020, we hope to have more than 300 hotels open," she said.

When Hilton executives introduced Tru in January 2016, they said the projected development costs for a single Tru hotel would be between $83,000 and $85,000 (excluding land) per room. Jaritz said development costs have been slightly higher than originally anticipated, but the brand is taking steps to reduce them.

"We came in a little bit higher than we expected, but what we did—even while Oklahoma City, our first hotel, was under construction—we started value-engineering," Jaritz said.

Hilton brought in developers, owners, general contractors, architects and engineers to rein in the costs, according to the brand leader.

“We went in and immediately started saying, ‘Where can we (value-engineer), and how quickly can we translate those savings into real time as these hotels are being built?” Jaritz said. “Since having gone through that exercise, we have gotten the numbers to where our owners are now telling us, ‘We don’t believe there is any more you can cut.’ That shows how nimble we have been.”

Rising construction costs since the January 2016 launch played a role in the increased development price tag, Jaritz said.

“It’s not just for Tru; It’s an industry challenge,” she said. “(There’s) the labor costs, then you have the (hurricanes) and all these other events, which are further driving up costs.

“We were, frankly, a victim of general increasing costs that were not something that we could have anticipated,” Jaritz added. “So we had to actually value-engineer even deeper as a result of these things. There was a confluence of things that were occurring, some of which were completely out of control, in fact a lot of which were out of our control.”

As general contractors get to know the brand, they can further value-engineer it because familiarity brings efficiency, she said.

The lobby of the Tru by Hilton in Cheyenne, Wyoming, which opened in August 2017. (Photo: Tru by Hilton)

There have been a several areas that have been fine-tuned, including the façade, the exterior overhang, simplifying the pattern in the flooring to cut installation time, and simplifying the ceiling structure in the lobby, Jaritz said.

“It’s really bits and pieces; there wasn’t one thing that was really driving it,” Jaritz said. “We continue, even as we launched, to have a 15% to 20% differential in construction costs versus Hampton, which was always our goal, and continues to be where we are right now based on estimates that we’re seeing.”

Extending the reach and engagement

Hilton’s reputation of launching successful brands has played a big part in gaining the confidence of owners and developers to build the large pipeline, Jaritz said. The previous launch of Home2Suites and the growth of Hampton by Hilton over the years have fueled the confidence of Tru developers.

“Also there was a huge consumer need that was unmet that we tapped into,” Jaritz said. “We changed the vision of what the mid-scale segment will look like in the future, and we’re developing a brand that has compelling returns for owners.”

Having owners so engaged in the launch of Tru has been beneficial, Jaritz said.

“There’s not a day that doesn’t go by where an owner doesn’t call me and say, “Hey Alex, have you thought about (fill in the blank),” Jaritz said. “They call us with ideas, we work through it via the advisory group, via the (owners’ advisory council), and they’re so invested in the success of this brand.”

Early returns from consumers have been positive and verifies Hilton’s belief that there’s a need for a consistent new-build brand in the midscale segment.

“They’re very efficient and very nicely laid out. … They’re designed very well with large bathrooms. … We have this amazing lobby space,” Jaritz said. “For (consumers) to say, ‘Wow, I couldn’t believe I could ever afford this’ is what we were hoping for.”

New prototype on the way

Tru’s team has learned a number of things about consumer preferences—all of which will be built into the brand’s Prototype 2.0 that will be introduced later this spring, Jaritz said.

Those preferences include:

- more work surface in the guestroom so they can work on confidential issues;
- more storage for personal belongings;
- more controllable lighting at each side of the bed is also included; and
- a higher placement for the mini refrigerator to make it easier access.

Jaritz noted the need for work surfaces was something guests seems particularly interested in.

“That’s something we heard very quickly,” Jaritz said. “We developed a retrofit desk that is easily implemented into the existing pace goods.” Hilton is paying 50% of the cost to retrofit the desks in the 16 open hotels, and it’s a brand standard going forward.

The final thing the executives learned was that while guests loved the concept of having 30 different flavors and toppings for breakfast, they want hot items, Jaritz said. Prototype 2.0 will include that option.

Maintaining a significant difference between Tru and Hampton is important to avoid amenity creep, and the hot items will reflect that difference, Jaritz said.

“The way we look at it between Hampton and Tru and all our other brands is: What are the consumers that we’re targeting? What is their mindset? What is the price point they want to pay for? What are their needs? What is their stay occasion, mind you? And what’s their rate?” she said.

The difference for owners is the construction costs and gross operating profits, according to Jaritz.

“The cost per occupied room differential between a Tru and a Hampton, or a Hampton and a Home2, are very clearly defined for us,” Jaritz said. “There’s almost a dollar difference between Hampton and Tru in terms of cost per occupied room. That will give Hampton a huge ability to further innovate and elevate their experience in terms of the choice of hot items, in terms of the variety, in terms of the display and the look and feel, and so it’s a much more expanded breakfast compared to Tru. Tru is really trying to just meet the basic expectations and deliver them in a really consistent way.”

Key differentiators for Tru include significantly smaller guestrooms, a unique design scheme and a different demographic than Hampton, she said.

“Our positioning is very different, the consumers we’re going after in terms of their mindset, very different,” Jaritz said. “They have meeting space; we don’t. Our lobby is two-thirds larger than Hampton’s. There are a lot of touchpoints. But they’re meaningful to the guests that we’re serving—not just to the owners.”

Tru’s average daily rate is coming in at 15% to 20% lower than Hampton—right where Hilton executives expected, according to Jaritz.

“We want to attract a new customer with a new mindset, with different expectations, at a lower price point, and that’s exactly what we’re starting to see,” she said. “They’ll try us, the loyal Hamptonists, and they go back to Hampton.

“Our job, and part of the whole strategy for this brand, was to attract a new type of customer—both owner and guest—to the Hilton portfolio so we can catch them earlier in their life cycles,” Jaritz added.