

## Hilton US, Sudden Rise in Number of New Brand Agreements

[New York = Hiroko Nishimura]

The new brand “Tru by Hilton” launched last year by Hilton Worldwide, a major US hotel, has increased its branch opening agreements at a rapid pace. The number of agreements as of November has reached 470. This brand has an approximately 100 dollar (about 11,000 yen) per night price point, aiming to take the middle price range, which has been underrepresented. How are they going to balance luxury chain brand power and a sense of affordability? I asked Ms. Alexandra Jaritz, Senior Vice President, who leads this brand.

## Mid-Class Chain, Maintaining Quality

\_\_\_Why did Hilton launch a “mid-scale (mid-class)” brand?

“In the U.S., 40% of annual hotel room sales are low- to mid-price range (at the 100 dollar or less per night level). Although the market is large, in the case of Hilton, the average room price for even a “Hampton” (classified as mid-class) is at the 130 dollar level, and the area near 100 dollars per night was missing.”

“According to a Hilton Points member survey, cases such as “I stayed at another hotel because there was no hotel under the Hilton umbrella that fit my budget,” accounted for about 20 % of annual accommodations. Because we did not have the mid-class brand, we had missed fulfilling the demand.”

## External View and Furnishings Specified in Detail



Hilton is advancing the establishment of the new brand “Tru by Hilton” at a fast pitch. (Tennessee)

“We assessed that the mid-price range competition environment was advantageous to enter anew, as well. The existing chain lacks in freshness of design and content of services, and quality fluctuates depending on the location. The buildings have become too old as well. “Tru by Hilton” is newly built so, from the design stage, can reflect recent customer preferences such as the size of the lobby. This is the strength of a newcomer, which existing properties do not have.”

\_\_\_“Tru” is the same franchise chain (FC) as the competitors. How are you going to maintain the service level and consistency?

“We have prepared 3 types, “For cities” and “Resorts” thoroughly packaging the content of the FC agreement, and “Intermediate”, which matches various locations. We have detailed requests for the interior specifications of lobbies and guest rooms. We require branches to purchase furnishings such as the furniture and toiletries, etc. from designated contractors.”

“Even though the FC agreement traditionally specifies the supplier of furnishings, in many cases, they are allowed to select a supplier arbitrarily. However, we intentionally made it an obligation. It makes the quality of the accommodations experience consistent within the chain, and it enables us to keep the furnishings purchase price low by procuring a large amount.”

\_\_\_What type of customer class will you target?

“Regardless of actual age, the definition is “to have the heart of the millennial generation.” They are characterized as the people who, rather than staying in a guest room, would prefer to spend time in a social place, such as a lobby, etc., and make full use of technology, and like a modern and comfortable design, and look for accommodations at an affordable price.”

“The young generation in their 20s who have just started to work, and baby boomers who enjoy the retirement life, etc. each one is a customer class wherein we can expect growth in demand.”

\_\_\_How about development outside the U.S.?

“We are considering it. However, it will be after increasing the number in the U.S. first, and accumulating experiences.”

\_\_\_How are you setting your goal for opening the business?

“For number of businesses opened, we anticipate 43 locations in 2018, and 400 locations within 5 years of our launch. They will probably exceed “Hampton” which is the largest franchise under the Hilton umbrella at present (approximately 2300 locations) at a relatively early stage.”

\_\_\_“Tru”, which is now open for business, has a guest room price at approximately 90 dollars or more per night. It is a relatively higher setting compared to the competing mid-class brand. Will you be able to maintain the targeted “sense of affordability?”

“By law and regulation, hotel corporations do not get involved with the FC-developed hotel guest room price. Because each hotel owner makes this decision according to market conditions, the price of accommodations could exceed “mid-class”, however, it will depend on demand.”

## U.S. Hotels, Increasing Guest Room Prices

### Increasing Need for Affordable Range

In the U.S., the hotel market continues to enjoy an economic boom in response to the long-term economic expansion. According to a summary by STR, an U.S. industry survey company, the U.S. domestic hotel guest room operation rate was 69.6% in October 2017, which was the highest to date for this month. The average guest room price has become 130.20 dollars (approximately 14,500 yen), an increase of 20% compared to that of 5 years ago.

Overall hotel guest room prices have increased and there is an increased need for hotels where people can stay at a relatively affordable price.

Because of this, following U.S. Hilton Worldwide, which entered the mid-class market ahead of everyone with “Tru by Hilton”, in September, UK Intercontinental Hotels Group (IHG) announced a new brand “Avid Hotels” at the same price range. Competition by various companies aiming to collect customers with new properties as their strength started to show signs of intensifying.

According to the forecast jointly announced by STR and Tourism Economics, a touring business industry consultant, the average guest room price in 2017 was 126.66 dollars, an increase of 2.1% year on year, and is seen as 129.64 dollars in 2018, an increase of 2.4% year on year.

The pace of the price increase may slow down but it is possible that it will settle at a higher level. It looks like the wave of newly established mid-class hotels will continue for a while into the future.



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