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Dreaming of a Rebound

By Deirdre Van Dyk

Holiday Inn could hardly be considered a hip hotel. But in the '60s and '70s, it was the category killer, with a new inn opening around the world every three days. The first hotel for the age of mass travel, it was the go-to lodging for everyone from families (kids clamored to stay there because of the pool every property had) to rock stars (Elton John wrote an ode to the chain, and the Who had such a rollicking party at a Holiday Inn in 1967 that its members were rumored to have been banned for life; today's W would kill for that honor). Heading into the 21st century, the brand got a bit threadbare. With more than 3,000 franchisees needing to be kept in line, standards deviated. You never knew what you might get when you stepped across the threshold. Other hotel brands, such as Hampton Inn and Marriott's Courtyard, began to attract business guests in particular with fresh new buildings, efficient business-travel-friendly design and larger rooms.

Two years ago, Holiday Inn, the largest division of InterContinental Hotel Group (IHG), recognized that it risked being marginalized and embarked upon a total refreshment of the brand: a new logo, a new bedding program, new showers and new marketing and advertising. Holiday Inn is a franchise brand, meaning owners pay a licensing fee and a percentage of their revenues, while the corporation takes care of marketing, advertising and reservations. Those owners will collectively invest $1 billion (including $60 million from IHG), making this the largest brand revamp in hotel history. "Everything you touch and feel is new," says Jim Abrahamson, IHG's president of the Americas. (See 50 essential travel tips.)

Reviving an iconic if tarnished hospitality brand is tough enough. Suddenly having to execute that plan in the midst of a global recession is going to show what IHG management is made of. With 1,319 Holiday Inns and 2,01 Holiday Inn Expresses worldwide, the brand launched by Kemmons Wilson in Memphis, Tenn., in 1952 is a behemoth, far larger than its competitors. (Marriott's Courtyard has 800 locations worldwide; Hilton Garden Inn 350; and Hyatt Place, 150.) Helping drive IHG's $1.8 billion in sales, Holiday Inn aims to continue growing — with 362 new Holiday Inns and 631 Expresses in the pipeline and China as one of its hottest markets — while dumping hotels that fail to meet brand standards. So far, about a third of Holiday Inns and Expresses have been refreshed, and IHG says that by December 2010 all hotels worldwide will be converted.

The company is asking owners to invest that $1 billion at a cash-short time. Revenue per available room (revPAR the primary industry barometer, is down 18% year to date industry-wide, according to Smith Travel Research.

And in Holiday Inn's segment, room revenues are down more than 17%, while occupancy is down almost 12%. Holiday Inn's category isn't the worst hit — that would be luxury hotels — but it's not in great shape. The next segment down the line, midscale hotels that don't offer food and beverage service (the Holiday Inn Express category), has fared better, with room revenues down 9% and occupancy down 11%. (See pictures of luxury private islands.)

Investing during a downturn is challenging, says Kevin Kowalski, Holiday Inn's global brand manager, but he lists brands that did — FedEx, Pizza Hut and Taco Bell — and came out stronger. Hotels might even have an added advantage, in that they can rework rooms that aren't occupied. "It's a bold move," says Abrahamson, "but you have to make bold moves during tough times." For IHG, that means increasing its sales force by 25% and ponying up for a multimillion-dollar ad buy. And despite posting a 38% drop in operating profits so far this year, the company has been able to hold market share.

No one thinks reinvesting in the brand is a bad idea. "What's the alternative?" asks Bjorn Hanson, a hospitality professor at NYU's Tisch hotel school. "To stay still?" But it's a tough sell on Wall Street and among some franchisees. The cost per hotel for the refresh runs from $100,000 to $250,000. Those that have spent the money, says Abrahamson, have seen a 5% rise in revPAR in a 10-month period, with a hotel in Pittsburgh, Pa., even seeing a 17.7% rise, an uptick that IHG concedes is at the top end. "Five percent is very attractive when that effectively drops through entirely to hotel profits," says Simon Champion, an equity analyst at Deutsche Bank. "That means that you could get payback within 12 to 24 months on a $150,000 investment — a better return than you'd see if you put your money in most places."

Still, even with the promise of those returns, as many as 35,000 rooms may leave the brand this year, and IHG has been questioned closely by Wall Street about the number of removals. Chief executive Andrew Cosslett admitted in a May earnings call that Holiday Inn could lose "a few more on the way than we originally planned" and that the company is working with owners who are having a tough time financing.

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Pity today's business travelers. They operate in an environment of painful budget constraints and calamitous conditions for air travel. But midlevel hotels like Hyatt Place and Hilton Garden Inn have responded by offering comfort, consumables and great value: complimentary cocktails, free wi-fi, better beds, 24-hour sundry shops and, of course, improved loyalty programs.

Holiday Inn hopes travelers will be won over by all its new goodies: a cheerful but "kept-real" greeting as part of a new staff-training program, the scent of green tea and ginger in the lobby (as opposed to chlorine from the pool) and a sound track that includes Sting and Bruce Springsteen. And when you step into that room — surprise — a pillow-top mattress with crisp white triple sheeting, a flat-screen television, a bright bathroom with a starched shower curtain and upgraded amenities from Bath & Body Works. Stuff you'd expect to find at higher-priced outfits. Which may leave Holiday Inn better positioned at a time when travelers are trading down but still demanding quality. (See Time.com/Travel for city guides, stories and advice.)

Yet it's not really luxury hotels that Holiday Inn is chasing. It's your home. In the past decade, consumers have feathered their nests with duvets, technology and plush couches as prices have retreated. So if the hotel is your home away from home, IHG doesn't want you to be greeted by an old tube television if you own a flat-screen. It's the same idea with the bedding. "At home, we don't have heavy old-school floral bedspreads," says Kowalski. And travelers were never enthusiastic about the possibility that those bedspreads weren't washed regularly. Now everything on the bed is changed. The choice of four pillows — two soft and two hard — came, says Abrahamson, from seeing guests check in with their pillows under their arms.

Of course, you can't spot these plush digs from the highway. Hence new signage, from branding consultant Interbrand Design Forum, that's designed to signal this new, modern spirit. The signature color was updated from forest green to a punchier yellow-green. The famous script now slants to the right instead of the left. "Handwriting analysis told us this was more forward-looking," says Amanda Yates of Interbrand. Yup, they analyze this stuff. Green bulbs illuminate Holiday Inns; blue beams shine up the walls of Holiday Inn Expresses. It's "an inexpensive way," says Scott Smith, also of Interbrand, "to make all that different architecture look cohesive." (See 10 things to do in New York City.)

Despite a ton of changes, the new Holiday Inn has met with mixed reaction from "seen this before" industry analysts, one even likening the refresh to rearranging the deck chairs on hospitality's Titanic. "They're too big a ship to steer a new course," he says dismissively. Less dramatically, the analysts think the Holiday Inn model, with a full restaurant dishing up three meals a day, is spent. Why would you want to eat at a Holiday Inn when you can hit a nearby Chili's?

Mike Patel, whose Newcrest Management owns 19 hotels, including nine Expresses and one Holiday Inn, likes the changes: "It was overdue. We really needed it." In Stamford, Conn. — home to global financial firms like UBS — the outpost's makeover has lifted it from the bottom of IHG's customer-satisfaction scores. "People say, 'Am I at the right hotel?'" says general manager Mike Bennett. "Companies that wouldn't consider us in the past are now staying with us."

Rick Takach, president of Vesta Hospitality, who recently spent $200,000 renovating a Holiday Inn in Lincoln, Neb., says he's grabbed market share every month since the April debut. The Washington-based owner, whose 11-hotel portfolio also includes Hiltons and a Marriott, has a happier staff, and the relaunch has given him a shot at recapturing lost clients.

The next 12 months are about getting the rest of the brand to the finish line. "Convincing the first person to sign up is easy," says analyst Champion. "Convincing the last person is much harder." IHG is going to have to do a good job of showing cash-constrained owners what returns they can get — and proving to road warriors that the changes have created a better hotel. "We've got to meet or exceed guest expectations consistently across the brand," says Bill DeForest, who counts one Holiday Inn among his 10 hotels and manages another, "or we're toast."□

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