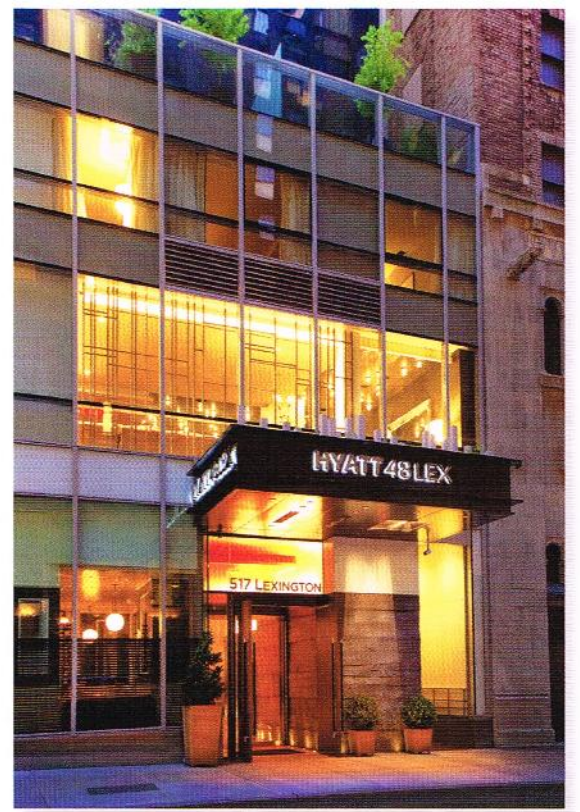Left to right: The James New York is part of the Denihan Hospitality Group. Concord Hospitality's portfolio includes the newly opened SpringHill Suites by Marriott in Latrobe, PA. The Hyatt 48 Lex in New York is a recent addition to HHM's portfolio.

Bandwidth requirements for hotels continue to escalate

BY BRUCE SERLEN

NATIONAL REPORT—When they check in, most guests expect that the hotel will offer similar, if not better, levels of bandwidth than they have at home. Most have WiFi at home with a connection speed that has continuously improved with the introduction of new technology such as Verizon Fios and AT&T's Uverse. Consequently, the bandwidth demand on hotels is dramatically increasing year-over-year. Meeting that demand can prove a complicated—and costly—challenge.

"We're concerned about having the right amount of bandwidth, but also that we have the right hardware and that it's configured correctly. We keep a pulse on bandwidth demands at each of our hotels and ask ourselves, are we keeping up with the demand and when do we need to upgrade and by how much?" said Brian Cornell, VP of information technology for Concord Hospitality.

"There's a tremendous pressure to add bandwidth. It's a positive pressure because it's a good thing in the end," agreed Jason Shane, director of information technology at HHM, formerly known as Hersha Hospitality Management. "Guests want to stay at a property that delivers what they're looking for. When we think about what guest needs are going to be changing in the next 18 months, demand for increased bandwidth is high on the list. We're trying to be ahead of the curve."

Contrary to popular opinion, leisure travelers can be just as demanding as business travelers in their bandwidth requirements. "Driving the demand has been the increase in the entertainment value of the Internet, such as streaming movies online," Cornell noted. "Years ago, high-speed Internet in

hotels was predominantly for business use, connecting to company VPNs and checking email and a limited number of websites."

The average guest today is carrying 2.5 devices. To cover the cost of providing a higher level of bandwidth, hotels have to find additional sources of revenue. One option is to introduce tiered pricing. In other words, instead of "one size fits all," guests would have a choice of options with the daily fee for higher levels of bandwidth costing more.

"We're looking at a tiered approach, but it's

Brian Cornell
Concord Hospitality

Jason Shane
HHM

a bit of a double-edged sword," said Scott Nowakowski, VP of information technology for the Denihan Hospitality Group. Customer acceptance, to a large degree, will depend on how a tiered system is marketed. "If you offer a basic level of bandwidth as a low-priced option, you run the risk of guests perceiving it as a kind of bait-and-switch, that the low-priced option is not capable of delivering the bandwidth they need," Nowakowski said. "Then, they'll have no choice but to upgrade to a higher-priced alternative."

Consumer acceptance of a basic charge will be even more of a challenge at select-service brands, where the tradition has generally been that any charge is built into the rate.

"At this hotel tier, we don't think there's an opportunity to charge for basic service," Shane noted. But he thinks HHM can persuade guests who want an upgraded high-speed signal that it's worth it to reach into their wallets.

Consequently, HHM has begun offering two bandwidths in two select-service properties in its portfolio. A basic level of bandwidth continues to be available on a complimentary basis, but guests are also being offered a higher level of bandwidth for a charge.

"The response from guests has been mixed," Shane acknowledged. "But the two-tier approach only started in March and we're confident it's going to be successful once guests get used to it."

The cost to hotels for providing higher levels of bandwidth can be significant, compared to the price consumers pay for a residential package. The difference is a service-level agreement. "The reality today is that residential customers can get a 100 meg Fios circuit for $79 a month or less, whereas your average hotel can be charged roughly $4,000 a month for a 100 meg commercial circuit, but with the service-level agreement," according to Nowakowski.

Asked to speculate as to how much travelers might pay per night for upgraded bandwidth, Shane said the jury is still out. "Our sense is that guests will be receptive to paying for the improved service up to a certain dollar amount. Higher than that amount, you're likely

to start to encounter resistance. But we're not sure what that number is," he said.

The challenge is finding that spot and what market it is in. "In Manhattan, for example, you're going to find a different take rate and tolerance level for that spend than you will in smaller markets," he said.

"Also with the business traveler, you tend to find a higher acceptable rate than with the leisure traveler because the business traveler is able to expense the charge," he added.

"Another factor coming into play in the bandwidth discussion is the rise in popularity of 4G-equipped smart phones and similar devices," noted Cornell. "Guests can carry their bandwidth with them and easily enable their smart phone hot spots for on-demand Internet connectivity. This could potentially make the amount of bandwidth provided by the hotel less critical. We haven't noticed a decrease in demand yet, but it could be on the horizon."

As 4G devices become more pervasive, how does that change the picture? "The technology is advancing very quickly, so we're not sure where it's going to end up," Cornell said.

Shane advised not jumping to conclusions. "We're finding that the hunger for bandwidth on the part of our guests is stronger than what they're currently able to get from their 4G service providers. But that certainly could change going forward," he said.

As Nowakowski sees it, with Smart phones, guests, in effect, are bringing their own bandwidth with them to the hotel. "Hotels' revenue from providing high-speed Internet access may go the way of hotels' phone revenue and their in-room movie revenue. Hotel owners continue to invest dollars to provide their guests with the best service, yet the number of guests using it may, in some markets, be declining," he concluded.