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## **Asset-light Business Model: Strategies for Hotels During the Pandemic**

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## About the Author



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## Asset-light Business Model: Strategies for Hotels During the Pandemic



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### Introduction

It is not surprising that an asset-light business model (ALBM) has fundamentally reshaped the hotel industry, because it focuses primarily on operations rather than investments in physical assets. Recently, shared economy-based businesses like Uber and Airbnb, which thrive on the ALBM, have proven to be successful. Many major hotel brand companies that are adopting the ALBM have increasingly divested their real estate properties and concentrated on managing and franchising hotels. For example, at year-end 2020, Marriott International controlled approximately 1,423,044 rooms worldwide – and nearly 99 percent of them, or 1,407,144 rooms, were operating under management contracts and/or franchise agreements. Another major global hotel group, Hilton, operated 1,019,287 rooms in 2020, of which 999,887 rooms – 98 percent of the entire portfolio – were managed or franchised. This dramatic shift in asset ownership reflects a recent global trend for the hotel landscape.

The most recent wake-up call for hotel companies came in the form of the global financial crisis of 2007-2008 led by an asset bubble in the real estate market. Holding a significant number of hotel properties, these companies realized they were highly exposed to risks associated with real estate investments, such as depreciation, high leverage, high operational and financing costs, and low liquidity. Increased risks and

costs also limited their ability to respond to and capitalize on potential investment opportunities. Failure to take on any positive investment projects could adversely affect growth prospects and profitability in the long term. To overcome these challenges, hotel companies have been looking for new ways to bring down operational costs and minimize risks associated with owning real estate properties. The asset-light business model is proving to be an effective approach taken by large global hotel chain companies.

In general, academic researchers and practitioners seem to agree that the ALBM provides more benefits than traditional brick-and-mortar business models, including higher profitability, stable cash flow, and lower risk. For instance, recent academic research found that lodging firms adopting ALBM demonstrated superior performance while increasing the efficiencies of investments (Seo & Soh, 2019; Seo et al., 2021). The initial focus in embracing this business model was to separate the owner of the real estate from the operators to help each party concentrate on what they do best. In particular, the ALBM has proven successful for hotel companies through a focus on achieving scale and establishing brands: two important competitive advantages in the hotel industry.

### **Competitive advantages of ALBM**

Competitive advantage is critical to the success of a business. From a resource-based perspective, efficient allocation of limited resources is key to developing competitive advantages, and ALBM can help hotel companies do this in several ways. First, the cost savings that result from reducing the commitment to real estate assets and outsourcing capital investment responsibilities allow hotels to achieve cost-efficiency advantages. In addition, expansion and growth through franchising can achieve economies of scale without the need to invest large amounts of capital in many diverse locations. Capitalizing on scale generally leads to revenue growth with minimal incremental cost through more centralized and streamlined processes.

Second, reducing capital requirements for large investment projects leaves more cash available for developing and strengthening core competencies that can help create superior value to customers. That is, saved cash can be allocated to developing core competencies that improve management of hotels and franchise brands. Investment in effective marketing, property management and revenue management practices; efficient reservation systems; rigorous training and educational programs; and up-to-date information technologies will ultimately contribute to the establishment of strong brands through delivery of excellent services and products. The financial flexibility gained by keeping costs and operations lean is becoming increasingly important as hotel

companies are required to quickly respond to changing environments and market conditions.

### **ALBM and the COVID-19 environment**

The world is undergoing potentially the worst economic crisis in modern history caused by the COVID-19 pandemic, and the hotel industry is one of the hardest hit by the virus. However, with the rollout of vaccines and therapeutic treatments for COVID-19 and the easing of travel restrictions, slow but gradual recovery of tourism is anticipated. Despite hope for strong economic recovery, hotel companies will likely face new challenges in promoting health and safety assurances. In particular, hotels that commit to ALBM must ensure that all hotels operating under their flags follow the same health and safety protocols to make them clean and safe for customers as well as employees. Meeting this new standard will require them to take a fresh look at their competitive advantages. *From a strategic investment perspective, the area of health and hygiene has been relatively overlooked by many hotels. In the wake of the COVID-19 pandemic, however, health and safety assurance has become not only an important consideration for travelers, but a necessary requirement. It is clear that investing in effective health and safety procedures could help hotels develop a new competitive advantage by gaining the trust of travelers and setting them apart from their competitors. Many chain hotel companies have already implemented more stringent hygiene and cleaning measures and adopted stronger health and safety standards to meet their customers' needs. For example, Marriott International launched Global Cleanliness Council, a multi-faceted platform to strengthen its cleanliness standards to meet the new health and safety challenges presented by the COVID-19 pandemic. Hilton also developed The Clean Safety Program that includes upgraded processes and training for employees to provide guests with a safe and clean environment during their stay.*

*With an increased focus on health and safety, the role of technology is becoming more important in creating safer practices and environments. While hotels have always been interested in employing innovative technologies, they must reevaluate and recreate their investment strategies from an entirely new perspective that is suitable for the post-pandemic era. For instance, previous investments in advanced technologies, such as mobile check-in and checkout, were derived primarily from the customer-experience point of view rather than from a safety and cleanliness perspective. However, they must reconfigure and repurpose their IT investments to help optimize efficiency in establishing and communicating the sense of security to their customers. In particular, technology investments that facilitate touchless and contactless services and transactions are crucial as they can effectively reduce health and safety concerns by minimizing exposure to employees and other guests. Some hotel companies have adopted artificial intelligence-based technologies, such as Google Assistant and*

*Amazon Alexa, that help avoid unnecessary human interactions and thereby decrease the likelihood of spreading viruses and germs. Others have incorporated advanced messaging systems that support real-time communication with their guests on property, which also contributes to a contactless and personalized experience.*

*The pandemic has provided both challenges and opportunities for hotel companies. Not only is it changing the way people perceive their health and well-being during travel, but it's making hotels adopt cutting-edge technologies to serve their guests safely. Hotels adopting the asset-light business model have more flexibility in allocating and reconfiguring their resources to improve and establish hygiene and safety measures and practices. However, investments in technologies to develop and implement these measures must be carefully evaluated and executed. For instance, expansion and growth via the asset-light strategy may not be sustainable if hotels cannot effectively incorporate and maintain new hygiene practices and/or standards across the system. Multi-national chains will have to strategically plan their investments across different segments and countries, as the recovery may occur at different paces in different places. The asset-light strategy – keeping lean – is not sufficient by itself, but the right-asset strategy – investing in the assets that are right for the company – is becoming a more critical factor for success. Therefore, it is more important than ever before for hotel companies to utilize and assign limited resources to maintain advantage in a competitive industry.*

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