

Lodging subsector report: boutique hotels

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Abstract

Boutique hotels focus on the experiential nature of service delivery. Factors helping to deliver upon the experience include a cap on the number of rooms, a design or cultural aspect to the property and attention to the location of the property. The subsector however, lacks a singular definition. This is in part due to structural changes undergone by the subsector since conception of the concept. The subsector evolved from comprising of independently owned properties to establishment of dedicated boutique hotel chains and more recently, involvement of large international hotel chains looking to diversify their operations. Problems facing boutique hotels encompasses increasing competition for real estate and financing opportunities, concept copying, and human resource and branding issues. Looking into the future, boutique hotels need to have a strong differentiation strategy while maintaining authenticity of the property. Operating under a members' club structure is an ongoing trend in this subsector, along with greater attention to environmental sustainability, incorporation of technology into the property, introduction of budget boutique hotels and growth within the Asian markets.

Definition of a boutique hotel

Over the years, many scholars have attempted to create a universally agreed upon definition for boutique hotels. Unfortunately, these attempts have not been fruitful in achieving its goal. A review of literature on this topic however, reveals common dimensions among descriptions of boutique properties. Main dimensions mentioned include smaller non-chain upscale property with a focus on the exchange between guests and hotel employees. These operations provide highly personalized service in a homey and intimate environment that usually includes a unique design or cultural component. Location of the property is also integral to a hotel's success and

ability to deliver a unique experience to guests (McIntosh & Siggs, 2005; Aggett, 2007; Lim & Endean, 2007; van Hartesvelt, 2006; Sarheim, 2010).

To be considered a boutique hotel, many researchers and industry professionals indicate the property may only have a maximum number of 100 rooms (Aggett, 2007; Henderson 2011; Mintel, 2011). The reason for stipulating a maximum room number is to address the ability of boutique hotels to provide personalized service, and to ensure the integrity of exchanges between guests and employees (Henderson, 2011). The argument for this statement is that it is simply not possible for larger lodging properties to deliver the same level of personalized service recognized at a boutique hotel as larger properties equates to larger staffing numbers, effectively reducing the amount of interaction between each individual guest and employee. Thus, negatively affecting how well an employee can get to know a guest. Overall, this reduces the ability of hotel staff to personalize a guest's stay. Furthermore, the aim of major chain organizations to standardize service across properties with rigid operation policies has historically been a factor preventing them from operating boutique hotels. Large organizations lack the flexibility and degree of employee empowerment required to deliver the highest level of personalized and intimate service recognized in a boutique hotel (Henderson, 2011).

A characteristic more consistently agreed upon is the unique design or cultural aspect of a boutique hotel's operation. Boutique hotels feature a unique product differentiating itself from others, and set the subsector apart from the rest of the lodging sector. Their source of differentiation is commonly associated with the design, artistic, cultural or historic appeal, the halo effect of celebrity patronage, and the prestige and exclusivity of a property (Lim & Endean, 2009; Sarheim, 2010). An example of a differentiation strategy employed by boutique hotels is housing hotels within converted historic or heritage buildings that tells a story specific to the

property. Branding also plays an important role in delivering uniqueness and differentiation. This is especially true for the new consumer group who purchases contribute towards expressing their self-actualization goals and self-congruency (Pricewaterhouse Coopers, 2005). This image of prestige associated with many boutique hotels and their reference groups is increasingly becoming a main pull factor for guests (Hartesvelt, 2006; Pricewaterhouse Coopers, 2005). For instance, a boutique hotel known to be frequented by many writers will draw aspiring writers or consumers interested in literature to the property. Similarly, a property recognized as a “hip” or “glamorous” establishment appeals to consumers who wish to be considered trendy or affluent (Hennessey, 2000).

A design or cultural component to the boutique hotel appeals to consumers of today’s experience economy (Holverson, Holverson, Mungall & Centeno, 2010). It sets boutique hotels apart from traditional forms of lodging services by introducing individuality to the property (McIntosh & Siggs, 2005). Some hotels feature special architectural designs such as a building shaped as a boot or in the case of Hotel Fox, they commissioned 21 contemporary artists to create 61 different designs for guest rooms (Hotel Fox, 2005). In essence, a guest staying at the Hotel Fox repeatedly can be exposed to a different environment and enjoy a unique experience each stay (Lim & Endean, 2007).

Another characteristic of boutique hotels mentioned in literature is the location of the property. Boutique hotel locations are classified into city and resort destinations. City destinations are chosen for the “trendiness” of the area, whereas resort locations are exotic, small and intimate (van Keulen, Viriot & Koh, 2002); however, generally, most properties are in urban or city centers (Lin & Endean, 2007). Location provides the context for which the unique experience of staying at a boutique hotel occurs by contributing to the ambience at the property.

Lastly, HVS consulting group compiled a list of terms that does and does not describe boutique hotels. The research identified additional concepts such as trendy, hip and cool, inspiring and aspirational to be part of what makes up a boutique hotel and its related experiences there. Some terms identified as not being correlated to boutique hotels include old fashioned, conformist, all-inclusive, bland and mainstream (Balekjian & Sarheim, 2011). An emotional connection between guests and the property is also mentioned throughout literature related to defining a boutique hotel, indicative of its importance to boutique operations (McIntosh & Siggs, 2005; van Hartesvelt, 2006).

Segments of boutique hotels

Based on the common characteristic definitive of a boutique hotel, the Boutique and Lifestyle Lodging Association defines boutique hotels as “an intimate, usually luxurious or quirky environment and upscale hotel environments for a very particular clientele (Boutique and Lifestyle Lodging Association, n.d.)”. Based on this very broad definition, they were able to identify twenty classifications of boutique hotels. Some of these categories are highlighted below.

Lifestyle hotels

The BLLA considers lifestyle hotels as boutique hotels as long as they have less than 300 rooms and combines living elements with functional design (Boutique and Lifestyle Lodging Association, n.d.; Mintel, 2011). They may or may not be themed properties. A review of literature on boutique hotels reveals a habit of using the terms boutique and lifestyle hotel interchangeably. Consultant groups such as Pricewaterhouse Cooper (2005) maintain both terms refer to the same type of lodging accommodation, whilst others argue there is a distinct

difference between the two. Mark van Hartesvelt (2006) is an advocate for the need to distinguish between the two. He maintains lifestyle hotels are marketed to mass tourists whereas boutique hotels “market to one”. He also stated, lifestyle hotels are based on creating and marketing an image, but boutique hotels sell the experience (van Hartesvelt, 2006).

Design, architectural and designer hotels

Design and architectural hotels pays particular attention to the property environment. While the prior focuses on aesthetics, the latter focuses on novelty of the architectural design and design achievements. Designer properties will hire popular architects or interior designers to design these properties as Hotel Fox has done.

Luxury and Classy hotels

These properties are all about excessive indulgence. Visitors are looking for a refined lodging experience to reflect the unique lifestyle of the wealthy (Boutique and Lifestyle Lodging Association, n.d.). Large fashion houses such as Yves St. Laurent, Versace, Gucci and Armani have diversified their brands’ revenue streams into boutique hotels (Hennessey, 2000). For instance, the philosophy of design for Armani Hotels & Resorts first and foremost mentions offering the intimate and warm welcome that Armani himself will extend to his family and friends, in addition to “superior service, immaculate design and incomparable luxury (Armani Hotel and Resorts, n.d.)”.

The other classification of boutique hotels under the BLLA includes trendy or modern hotels, all-suite hotels, artistic hotels, avant-garde hotels, city hotels, classic hotels, conference hotels, contemporary hotels, corporate hotels, distinctive hotels, extraordinary hotels and funky hotels. All these classifications feature varying degrees of focus on property design and in providing an

experiential experience for guests (Boutique and Lifestyle Lodging Association, n.d.). Many boutique hotel properties fall under multiple classifications. As per the examples provided, luxury properties developed by large fashion houses can be classified both under designer and luxury hotels.

The largely encompassing definition and classification system for BLLA is mainly the result of how the association's receives funding. A source of funding for BLLA comes from selling memberships; the more memberships they are able to sign the more financial resources they are able to secure. Accordingly, they have a broad definition and numerous classifications of boutique hotels, of which, some may seem farfetched from the original boutique hotel concept, all only but to help inflate their membership numbers.

Development of boutique hotels

History

In the 1970's, the development of large hotel chain operations lead to the rising popularity of standardizing lodging products and services. Standardization is the response to help management control quality, predict, and minimize mistakes and risks arising from employee error during service production (Sandoff, 2005). Under this business model, employee-guest encounters are regulated based on service blueprints (policies and procedures) developed through service engineering (Sandoff, 2005). By way of having a standardized product and service delivery, visitors were able to know exactly what kind of room and service they can expect every time they stay at a property belonging to the same hotel chain.

The concept of boutique hotels was the result of a counter movement against the standardization of lodging products and services in the 1980s. Consumers were looking for different experiences

from those they have become so well accustomed to from large hotel chains (Aggett; 2007; Rogerson, 2010; Sarheim, 2010). The first boutique hotel to respond to this change in consumer attitude was by Blakes in London which opened in 1978. The boutique concept quickly spread across the Atlantic to stateside with the opening of Clarion Bedford in San Francisco in 1981. Ian Schrager, recognized as an iconic boutique hotelier entered the subsector in 1984 with Morgans Hotel in New York (Mintel, 2011). The counter-movement continued to fuel growth of the boutique subsector with independent, dedicated boutique hotel chains and major chain operators (Mintel, 2011).

Target Market

The target market for boutique hotels are guests in the early 20's to mid-50's, have a mid to upper income average (Olga, 2009), majority of guests' are male (61%) and 63% of the subsector's business mix is from corporate travel (Pricewaterhouse Cooper, 2005). The average stay of a guest to a boutique hotel is between one to two nights (Pricewaterhouse Cooper, 2005). Today's guests continually seek new and unique experiences different from standardized hotels in which the property itself becomes the destination location (Rogerson, 2010) and their tourism purchase patterns are becoming polarized (Pricewaterhouse Cooper, 2005), both of which favours boutique hotels as they are experience focused upscale properties. Additionally, symbolic meaning behind premium brands, such as prestige associated with boutique and lifestyle hotels (Pricewaterhouse Coopers, 2005), are used to express the visitors' self-concept of themselves or express their self-actualization needs (Jamal & Goode, 2001).

Recent developments in the subsector

The recent demand for boutique hotels is credited to the growing interest of consumers in learning about the fine arts and culture (Lim & Endean, 2009). In comparison to other lodging subsectors, boutique hotels are able to deliver both aspects of design and local culture to guests; hence, successfully attracting more guests and charging higher room rates. The increasing polarization of tourists today (Pricewaterhouse Cooper, 2005) is also fuelling development in this subsector. Boutique hotels normally have at least a four star rating and operates between mid to luxury markets (Rogerson, 2010; Aggett, 2007) due to added value for guests from the nature of the lodging product and to their higher level of services and amenities.

Supply side growth for boutique hotels is fuelled by outperformance of the subsector compared to overall regional lodging sector performance (Aggett, 2007; Mintel, 2011). Comparing the performance of United Kingdom's overall lodging sector to the region's boutique subsector, the subsector has consistently outperform the overall sector in terms of occupancy rate, ADR and RevPAR from 2003 to 2006 (Pricewaterhouse Cooper, 2005; Pricewaterhouse Cooper, 2006). With this information, it is inferred that the boutique concept is successful at differentiating itself from other lodging products, while better addressing guest needs and creating value for them. This trend was expected to continue strong throughout 2007 and 2008 (Pricewaterhouse Cooper, 2006); however, with the recent financial crisis, the forecasts did not materialize. Deloitte noted boutique hotels yielded weaker performance and slower growth through the recessionary phase, pulling down the sector's overall performance averages (Deloitte, 2010).

The severity of the recession's impact on the subsector is illustrated in terms of properties defaulting on their mortgage loans. In Manhattan, New York, the Dream Hotel, a luxury

boutique hotel was unable to make continual payments on their \$100 million securitized loan. Near the Hudson River, the then still under development and construction Vu Hotel had the property taken by its construction lender when they could not meet loan payments (Prinstin, 2009). Furthermore, the financial crisis slowed down the rate at which new boutique properties opened, as the lodging sector suffering comparably more than many other sectors in the commercial real estate industry (Mintel 2011; Prinstin, 2009). Additionally, Mintel (2011) reported chain organizations such as Morgans Hotel Group selling ownership of their properties to increase the organization's liquidity and meet debt payments in face of financial duress. Of greater significance are the properties that were put up for sale. The group's flagship Morgan Hotel, which introduced the boutique hotel concept to the United States, along with the chain's second most prominent property, the Royalton Hotel, were placed on the market and sold for \$140 million US (Mintel, 2011).

Structural change in the boutique hotel subsector

Operators of boutique hotels were mainly independent operators in the 1980's, but faced with growing demand, dedicated boutique hotel chains emerged. Dedicated boutique hotel chains are chain hotel operators or management companies whose portfolios only contain boutique hotel properties (Mintel, 2011). Malmaison and Joie De Vivre Hospitality are examples of dedicated boutique hotel chains and are two of the larger dedicated chain operators in Europe and the United States (Mintel, 2011; Pricewaterhouse Cooper, 2005). Another example is Morgans Hotel Group, which evolved from a single property, Ian Schrager's Morgan Hotel in New York, to a chain of six boutique properties (Mintel, 2011).

In 1998, the opening of the first W Hotel in New York marked the entrance of a third type of operator into the boutique hotel subsector: major chain operators (Mintel, 2011). Major chain hotels, include the key international lodging brands with diversified lodging operations to include boutique or lifestyle hotel operations. Examples include Starwood with their W Hotels and Aloft properties, Wyndham's Dream Hotel, and IHG's with Hotel Indigo.

Without a universally agreed upon definition for boutique hotels and an increasing number of chain operators entering the subsector, there will be continual blurring of boundaries between what constitutes as a boutique hotel. Questions such as whether or not a lifestyle hotel can be too large to be considered a boutique property, or if the mass tourist can become the normal boutique guest will continue to be asked, and where there is money to be made, these questions will be addressed. Already today, large lifestyle hotel brands can provide the similar level of intimate guest service with the help of technology. Guests can walk into any property belonging to a chain hotel organization and staff at the property will know their name, preferences and other personal information thanks to a computer database; even if the guest have never been to that particular property or met any of the employees at that specific property before.

Issues facing the boutique hotel subsector

A critical factor recognized hindering continual growth of the subsector is the lack of available sites (Pricewaterhouse Cooper, 2005). As aforementioned, the location of a boutique hotel is part of the product, service and experience delivered to a guest at a boutique hotel. Culturally vibrant areas, buildings with heritage or historical value, and exotic resort destinations will become increasingly scarce as the demand for this limited resources increases every day. Competition for

land is not limited to just boutique hotel developers but to the rest of the commercial real estate market and other industries too.

Availability of funding to develop new properties is a barrier to growth according to boutique hotel operators (Pricewaterhouse Cooper, 2005). With the economy still dealing with the aftermath of a real estate bubble burst and recession, obtaining financing is much more difficult than it was a few year prior.

Concept copying is another factor impacting growth of the subsector (Pricewaterhouse Cooper, 2005). As with many service based products, a differentiation strategy is integral to setting an organization apart, attracting guests and remaining profitable in the long run (Taylor, 1996). This is especially true of boutique hotels whose ultimate goal is to go against standards and be different. For example, Kimpton Group opened the first rock n' roll and wine themed hotel property, propelling them into a highly recognized boutique chain brand, whereas others entered into partnerships with fashion houses. However, physical differentiation strategies are easily replicable by competitors and with more and more boutique hotels opening up annually, competition between properties will only increase in intensity.

To a lesser extent than the factors previously mentioned, human resource poses as another obstacle to continual growth (Pricewaterhouse Coopers, 2005). Boutique hotel operators indicated encountering difficulty finding employees who fit their organization and job position. Boutique hotel employees need to be highly service oriented to deliver the exquisite boutique level of personal and intimate service experience. As a result, retaining employees at the organization is fundamental to the success of a boutique hotel due to the emphasis around the guest-employee relation. With a high turnover rate, it is much more difficult to deliver on the

boutique hotel service expectation, as the process of becoming acquaintances with the guest must start anew every time a new employee is hired. In the long run, this will deter guests from returning to a property if they can find another with a more stable group of employees.

Lastly, similar to other tourism products and services, revenue levels of boutique hotels are closely linked to the global economic environment. Through the 08 and 09 financial crisis, some boutique hotels discounted their prices in order to compete for revenue against the rest of the lodging sector. The price wars prompted some boutique hotels to sell room on popular travel bargain websites in addition to in-house discounting strategies. In hindsight, it is now known that association with bargain websites have undermined the reputation of some boutique brands (Henderson, 2011).

Future trends and projections for the boutique hotel subsector

The top trends for the boutique hotel subsector were identified earlier this year in the Boutique Hotel Summit in Europe (Boutique and Lifestyle Lodging Association, 2010). Developing a unique experience at a property will be the continual focus for boutique hotels. This is particularly relevant to major chains entering the subsector. These organizations have to break away from the mindset of delivering consistency in each and every one of their properties. Instead, they must devise methods of making each property under the same brand unique in terms of experience, through tangible or intangible methods. In the past, some chains have capitalized on the property's location partnered with celebrity chefs to showcase the local culture, heritage and specialities, delivering different and authentic experiences specific to each individual property under a single brand.

Chain boutique hotels also need to be mindful when choosing locations for new properties. Guests are looking to interact with the hotel and the environment in which it is in, not the brand the property operates under (Boutique and Lifestyle Lodging Association, 2010).

Authenticity is another trend that must be maintained at all boutique hotels (Boutique and Lifestyle Lodging Association, 2010). In other words, the property must fit in with the destination in which it is located. For converted heritage and interesting buildings, the integrity of the building should be kept intact with minimal changes to the structural appearance of the building such that the story of the property is maintained.

The incorporation of members' clubs is also expected to become more popular in the future, especially in global cities such as New York and London, England (Boutique and Lifestyle Lodging Association, 2010). To become a member of these exquisite members' only hotels, special invites or referrals from existing members are required, wait-lists are also a norm. Although there are many loyalty programs in the tourism industry today, many focus solely on purchase behavior and lack attention towards developing identification between the consumer and organization (Morais, Dorsch & backman, 2004). The process of entering a members' only club addresses that issue by first strengthening members' identification to a club through the entry process, and then prompting greater levels of loyalty to the organization and repurchase behavior (Ferreira, 1997). The selling point of these memberships are intangibles such as prestige, exclusivity and privacy at the property, ultimately developing a self-contained social sphere. Membership also comes with tangible privileges such as members' only access areas and services such as rooftop terraces, social events for networking opportunities (Balekjan & Sarheim, 2011).

Alike to other tourism and hospitality services, boutique hotels have not escaped the pressure of becoming more environmentally conscious. As mid-level to luxury properties, it is important guests are not forced to become environmentally conscious. Subtle ways of helping guests to enforce a more environmentally friendly stay includes smaller garbage cans and larger recycling bins, or sourcing locally produced and in season ingredients for on-site food and beverage operations (Boutique and Lifestyle Lodging Association, 2010).

Presence of in-room technology is a must and continual upgrades of the most up-to-date technologies will be expected from guests. Operators will have to mind the placement of technology in- room however, making sure that they are not intrusive or jarring in the room, particularly in a heritage building (Boutique and Lifestyle Lodging Association, 2010).

Lifestyle hotels will continue to proliferate the boutique hotel sector along with boutique B&Bs and budget boutique hotels (Boutique and Lifestyle Lodging Association, 2010). Budget boutique hotels will be the most prominent new up-and-coming business model for the subsector. Many operations such as Citizen M, Starwood's Aloft Hotel and Ian Schrager's PUSH brands have already marked the beginning of the budget boutique trend. Budget boutique hotels are attractive to developers as development costs and construction time are much less than the average boutique property. Moreover, with the intention of constructing smaller rooms, this increases the number of potential sites for boutique hotels; addressing the problem of finding suitable sites (Balekjian & Sarheim, 2011). Other characteristics of budget boutique hotels include limited on-site food and beverage services, usually only vending machines will be available, and creating and promoting common living spaces, such as the lobby, that encourages guest to guest social interactions. With his PUSH brand, Ian Schrager stated, "the idea behind the boutique, as I saw it was meant to touch people emotionally and viscerally and offer guests a

truly unique experience (Mintel, 2011).” He will be focusing on the attitude, approach and experience versus physical design for PUSH properties and make the brand inclusive, rather than exclusive. Service at budget boutiques will be excellent but not superfluous, unlike the current premium and luxury tiered boutique hotels (Balekjian & Sarheim, 2011; Mintel, 2011).

Geographically, continual growth is expected of established markets in both Europe and United States (Balekjian & Sarheim, 2011). Fifteen new properties by chain operators were scheduled to open between 2012 and 2013 in Europe and Hotel Indigo had eight US properties in the pipelines as of 2011 (Mintel, 2011).

On the other hand, exponential growth is expected in the Asia- Pacific region. In 2002, van Keulen, Biriot and Koh also identified the potential for growth in the region, but quickly established the subsector is still underdeveloped. Through the years there has been growth in this subsector as evident by the increasing number of dedicated boutique hotel chains and management companies such as the Banyan Tree and Boutique Hotel Management Asia. Major chains have also entered the market in Asia Pacific. W Hotels currently have seventeen properties in Asia, four of which are in China (Starwood Hotel & Resorts Worldwide Inc., 2012). China is becoming a major development center for boutique hotels with development starting to occur outside of first-tier metropolises, and making way into second and third-tier cities (Lam, 2011). Further supply and demand side growth is expected in this region as per increasing income levels and forecasted international arrival numbers.

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