Hotel Vertu: Analyzing the Opportunity in the Boutique Hotel Industry

Yvonne D’Arcy and Elisabeth Whiting sat across from each other, contemplating the decision that confronted them about their fledgling venture. It was early May of 2015, and the two women were soon to graduate with their MBAs. They had spent most of their second year working together on an independent project. First, they had explored the boutique hotel industry. Then, after deciding it was an attractive space, they had made significant progress toward a plan to open a boutique hotel in Savannah, Georgia. Now, D’Arcy and Whiting had a property under contract, architectural plans and estimates for a renovation, and a tentative proposal for debt financing.

The women were meeting to discuss how to approach investors. Whiting observed:

We feel like we have made a lot of progress, and Mr. D’Arcy—Yvonne’s father—has offered to introduce us to some of his friends whom he believes would be interested. He has also said he is willing to match their funding dollar for dollar. So, if we need a bit over $13 million in equity, we really need to find only $6.5 million from outside investors and Mr. D’Arcy would provide the remainder. It has been a great project and we’ve learned a lot. But, once we go out to investors, then I feel like we are really committed. I want to be sure it is as attractive an opportunity as we think it is.

For her part, D’Arcy added:

We’ve become really excited about the boutique hotel industry and this opportunity in particular. I put a lot of stock in the fact that my father is enthusiastic enough to put up half the money. I think we have nothing to lose and a lot of upside.

Yvonne D’Arcy and Elisabeth Whiting

D’Arcy and Whiting were fellow second-year MBA students at a business school in the Midwestern United States. D’Arcy was born in Brussels and then moved to Paris when her father’s base of business shifted. Following her graduation from Oxford University with a degree in economics, she worked in
London for a large investment bank. Her father was the principal of a small, well-known real-estate investment firm and had developed and financed residential and commercial properties all over Europe.

Whiting had grown up in San Francisco and attended Stanford University. She had then worked in the internship program of an international hotel chain. Whiting spent the first 18 months in various managerial roles at two separate hotels, eventually serving as the assistant general manager of a 250-room hotel in New York City. Her next position was in the firm’s London headquarters in a strategic planning role, investigating potential locations for new resort hotels in Portugal, Spain, and Mexico.

The two women had met on their first day of business school. Their friendship had grown during their first year and deepened during the summer of 2014, when they both worked for the same consulting firm.

At the start of their second year, D’Arcy had enlisted Whiting’s help in a field-study project that D’Arcy had structured with her father’s encouragement:

My father has financed a lot of different hotels around Europe, and one of his latest investments was a boutique hotel in London. He didn’t know much about the broader boutique industry and trends, so he wanted to know what was happening in the boutique hotel business, and it sounded interesting to me. I liked my time in private equity and consulting, but I knew it was a grueling lifestyle and I wasn’t sure I wanted to sign up for that. I’d done a lot of travelling and was fascinated with the hotel business and thought there might be an interesting career there. I reached out to Elisabeth because of our friendship and the great background she had in this business. I’ve seen the kind of flexibility and success my father has had as an entrepreneur, and that’s extremely appealing to me.

Whiting described her motivation for getting involved:

I tested the waters in consulting over the summer. It was intellectually stimulating, but I missed the more tangible, operations-oriented kind of experience I had enjoyed in the hotel business. So I was thinking about going back to this industry and also looking at other roles that seemed similarly operational in nature. When Yvonne came up with this independent project proposal, it seemed like a great opportunity to dig into a niche of the hotel business to which I’d not had much exposure. Also, it seemed like a great time to pursue an entrepreneurial opportunity. I really felt like we had very little to lose.

D’Arcy was similarly motivated: “I was always envious of the people who were more involved in the operations, when I worked in private equity. We’d spend three months digging into a company and then move on to the next deal. I missed the opportunity to be involved with ongoing operations.”

The Hotel and Boutique Hotel Industry

In 2013, the hotel industry was a large part of the $900 billion U.S. tourism market. Hotel spending accounted for $163 billion in sales in 2013 and included nearly 53,000 properties and almost five million guestrooms. The industry was relatively concentrated: Hilton, Marriott, Wyndham, Choice, and InterContinental, controlled nearly 46% of rooms with 62 different hotel brands between them.

Boutique hotels were an emerging segment in the hotel industry. They were generally defined as intimate, luxurious, and upscale hotels that featured unique architecture and design that targeted a