THE GROWTH STRATEGIES OF HOTEL CHAINS

BEST BUSINESS PRACTICES BY LEADING COMPANIES

ONOFRE MARTORELL CUNILL, PhD

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To my parents, Miquel and Cati,
to my brother Rafel, and to Nuria

Well, brothers and sisters, ladies and gentlemen, you don't need me to tell you that honors are won at the expense of great fatigue.

CONTENTS

ABOUT THE AUTHOR

Onofre Martorell Cunill, PhD, also holds master's degrees in business administration and economic-financial management. He is a lecturer at the University of the Balearic Islands in the Faculty of Business and Management Administration, the School of Business Studies, the Official Tourism School, the Higher Studies in Tourism program, and the MBA and MTA programs. He is also a lecturer at the Financial Institute of Madrid, the International Center of Financial Studies, the Business School ESADE (Barcelona), and the University of Alicante, all in Spain. He has served as an advisor to several international hotel chains and is the author of *Hotel Chains: Analysis of the TOP 10,* as well as of a large number of articles for national and international workshops.

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Chapter 1

The Concept of a Strategy

What is a strategy? No definition is universally accepted. The term is used by many authors with different meanings. For example, some include targets and goals as part of the strategy, while others establish clear distinctions between them.

James Brian Quinn (Mintzberg and Quinn, 1993) gives special emphasis to the military uses of the word, and he highlights a series of "dimensions" or criteria from this field that are crucial if strategies are to be successful. To illustrate these criteria, the writer refers to the times of Philip II and Alexander of Macedonia, the origin of his main example. Quinn also presents a summarized theory of how similar concepts to those used then influenced subsequent military and diplomatic strategies.

No one can deny that the military aspects of strategy have always been a subject of discussion and part of our universal literature. In fact the origin of the word "strategy" goes back to the Greeks who were conquered by Alexander the Great and his father.

Initially the word *strategos* was used to refer to a specific rank (the commander in chief of an army). Later it came to mean "the general's skills," or the psychological aptitude and character skills with which he carried out the appointed role. In the time of Pericles (450 BC), it referred to administrative skills (management, leadership, oratory, and power), and in the days of Alexander the Great (330 BC) the term was used to refer to the ability to apply force, overcome the enemy, and create a global, unified system of government.

Mintzberg concentrates on several different definitions of strategy, as a *plan* (i.e., a maneuver), *pattern, position,* and *perspective* (Mintzberg and Quinn, 1993). The author uses the first two definitions to take readers beyond the concept of a *deliberate* strategy, moving far away from the traditional meaning of the word to the notion of an emerging strategy. With it, Mintzberg introduces the idea that strategies can be *developed* within an organization without anyone consciously proposing to do so or making a proposal as such. In other words, they are not *formulated*. Although this seems to contradict what is already established in published literature on strategy, Mintzberg maintains that many people implicitly use the word this way, even though they would not actually define it so.

In the world of management, a "strategy" is a pattern or plan that encapsulates the main goals and policies of an organization, while also establishing a coherent sequence of actions to be put into practice. A well-formulated strategy facilitates the systemization and allocation of an organization's resources, taking into account the organization's internal strong points and its shortcomings so as to achieve a viable, unique situation and also to anticipate potential contextual changes and unforeseen action by intelligent rivals.

Even though each strategic situation is different, do some common criteria tend to define what makes a good strategy? Simply because a strategy has worked, it cannot be used to judge another. Was it the Russians' strategy in 1968 that enabled them to crush the Czechs? Of course other factors (including luck, abundant resources, highly intelligent or plainly stupid orders or maneuvers, and mistakes by the enemy) contribute toward certain end results.

Some studies propose certain basic criteria for assessing a strategy (Tilles, 1963; Christenson, Andrews, and Bower, 1978). These include a clear approach, motivating effects, internal coherence, contextual compatibility, the availability of the necessary resources, the degree of risk, coherence with key managers' personal values, a suitable time frame, and applicability. Furthermore, by looking at historic examples of strategy from military, diplomatic, and business scenarios, we can infer that effective strategies must also include a minimum number of other basic factors and elements, such as

- clear, decisive objectives;
- the ability to retain the initiative;
- concentration;
- flexibility;

- a coordinated, committed sense of leadership;
- surprise; and
- security.

These fundamental aspects of strategy apply, whether we are talking about business, government organization, or military campaigns.

Chapter 2

Competitive Strategies

THE THEORY

Porter suggests that generic competitive strategies are based on what he calls the factors that determine competition or, in other words, based on an analysis of the competitive environment. He comments that the competitive situation of a specific industrial sector depends on five fundamental competitive forces (Porter, 1982):

1. The threat of new entry by potential competitors
2. The threat of substitute products or services
3. Clients' bargaining power
4. Suppliers' bargaining power
5. Rivalry among the current competitors

Figure 2.1 shows the different forces that affect competition in an industrial sector.

These five competitive forces together determine the intensity of competition and the profitability of the industrial sector. The strongest force (or forces) is the one that heads the field, and it plays a crucial role in the development of a strategy.[1]

Porter (1982) describes a competitive strategy as taking offensive or defensive action to create a secure position in an industrial sector, so as to deal successfully with the five competitive forces, thereby obtaining greater company returns on the capital invested.

Business managers have discovered many different ways of achieving this goal and, on an individual level, the best strategy is a unique formula that reflects the company's specific circumstances. However, on a wider level, three internally consistent generic strategies can be identified and analyzed. These can be used singly or in combination

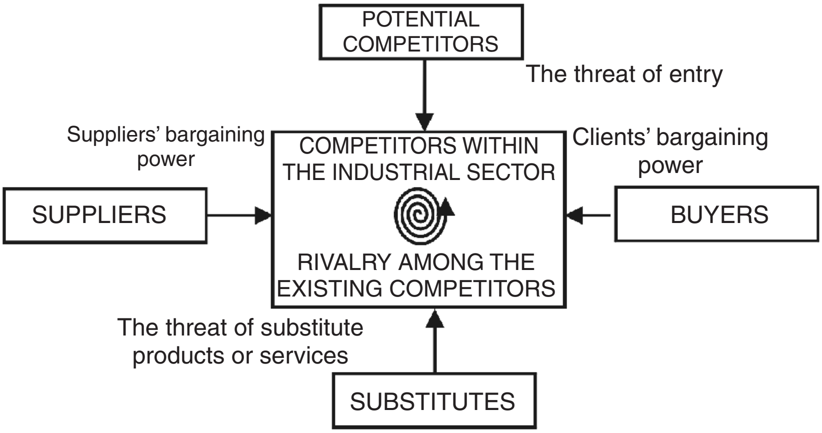

FIGURE 2.1. The Forces That Affect Competition in an Industrial Sector

to create a long-term secure position and distinguish the firm from rivals operating in the same sector.

Several methods can ensure that an effective strategy achieves this secure position, thus protecting the company against the five competitive forces. They include (1) positioning the company so that its capabilities offer the best defense against the existing competitive forces; (2) influencing the balance of these forces via strategic movements, thus improving the business's relative position; and (3) anticipating and responding swiftly to changes in the factors on which these forces depend, then choosing a strategy more consistent with the new competitive balance before rivals see this possibility.

An important aspect of an analysis of Porter's competitive strategies (1982) is the *value chain.* With it, company leaders should be able to identify what activities they can influence in order to bring about one of the proposed competitive strategies. From a definition of what a competitive strategy is, an analysis of the five competitive forces or factors that determine competition, and the idea of a value chain, three generic competitive strategies can be described: *cost leadership strategy, differentiation strategy,* and *focus or market niche strategy.*

The first two strategies are suitable for rival companies competing in an entire sector or industry, whereas the third is appropriate for companies competing in a particular segment of an industrial sector or market.

Figure 2.2 shows these generic competitive strategies.

Cost Leadership

With a cost leadership strategy, the idea is to gain a competitive edge by achieving a cost advantage. In other words, you must reduce your costs as much as possible. This gives the company an advantage over its rivals and also over its suppliers and clients. To develop this strategy, several conditions are required:

- The company must have a high market share so that it has a high volume of sales. In this way the managers can benefit from learning and experience.
- The leaders must ensure the high performance of those factors that permit a reduction in the unit cost of production.
- Technology must be used to ensure that goods are made at the lowest possible cost.
- If possible, the company managers must try to carry out a policy of product standardization to achieve high production levels and, therefore, a lower unit cost.

Entry barriers are one way of contributing toward the strategy's success, in the form of economies of scale and a cost advantage in production and distribution. This strategy allows a company to achieve a stronger position than its rivals, because the company's low costs allow executives to cut prices while continuing to make a profit until their closest rival's profit margins disappear. The company's wider

		STRATEGIC ADVANTAGE	
		Uniqueness perceived by the client	Low-cost position
STRATEGIC TARGET	The whole industrial sector	DIFFERENTIATION	OVERALL COST LEADERSHIP
	Only a specific sector	FOCUS OR HIGH SEGMENTATION	

FIGURE 2.2. The Three Generic Strategies

margins and greater size allow for bargaining with suppliers so that, even if the latter were to force a price increase, the company would still have a cost advantage.

Nevertheless, this strategy has risks. If it is followed consistently but measures are not taken to guarantee the continuance of the previous conditions, serious dangers could arise. As changes in technology occur, the firm's technology and production levels must be adapted to respond to new requirements. Should this not happen, the company could lose its cost advantage if a rival incorporates these changes instead.

Neither should the company leaders disregard their products' possible obsolescence or clients' new expectations. In addition, the strategy's[2] drawbacks also include the limited validity of the experience curve when a big change occurs in technology or when new entrants are able to learn more swiftly.

If company owners wish to achieve a cost advantage by reducing their total costs, an activity analysis can be very effective. It highlights activity-generated costs, activity components, and links between activities and chains of suppliers or clients that can be modified in order to contribute toward a decrease in costs.

The Differentiation Strategy

The aim of the differentiation strategy is to ensure that either the company in general or certain specific elements (such as its products, customer care, quality, etc.) are perceived to be unique by both clients and suppliers. As one might suppose, this kind of strategy means that the company involved must have certain capacities and skills (i.e., technology, marketing, etc.) that enable it to achieve, maintain, and develop a certain degree of differentiation.[3]

As for the clients, this strategy attempts to instill a sense of client loyalty toward the company and its products and services, making the demand less sensitive to price fluctuations. Differentiation permits higher prices and wider margins than companies without it could allow themselves. In turn, these wider margins help to ensure better bargaining power over suppliers and clients. Although exceptions exist, using this type of strategy normally makes it difficult to achieve a high market share.

The value chain is equally useful in the differentiation strategy. In this case, an analysis must be made of the activities involved in the value chain and their links in order to determine which of their basic characteristics can be modified so as to differentiate the company from its competitors.

The Focus or Market Niche Strategy

The focus or market niche strategy is based on the concept of concentrating on a certain segment of the market, thus limiting the scope of competition. Once a company is positioned in a market niche, the executives must try to achieve a position of leadership by cutting costs, by differentiation, or by both means, thereby trying to obtain a competitive advantage within the market segment or niche in which they are competing.

Companies that achieve a high degree of segmentation will also be able to obtain higher average profits in their particular sector.[4] The market niche strategy has the following risks: (1) An increase in the cost differential between competitors focusing on the whole market and companies following a market niche strategy eliminates the cost advantages of focusing on a limited target segment, or offsets the differentiation that was achieved by concentrating on one particular segment. (2) Differences can be found in the products or services really required by the target segment. (3) Rivals find submarkets within the target segment and outfocus the focuser.

Relevant Factors in Employing the Strategies

Other differences characterize the three generic strategies as well as those aspects already discussed. For the strategies' successful application a number of different resources and skills are required, involving different types of organization, control procedures, and incentive systems.

A global analysis of Porter's competitive strategies reveals a certain association with company size, meaning that cost leadership and differentiation strategies are more suitable for big companies or those with easy access to the resources needed to apply them. On the other hand, small or medium-sized companies seem more suited to market niche or focus strategies. However, this strategy could also be used by big companies, although not exclusively as our analysis showed.

Company leaders might decide to use the differentiation strategy in combination with the market niche strategy. Indeed in many cases to do so is even advantageous (Wright, 1987).

Nevertheless, as Porter comments, a hybrid strategy incorporating some aspects of a cost leadership strategy and others based on differentiation must be avoided. He calls this a "mid position." Although this situation does not imply the strategy's total failure, it does mean less effective performance than if one of the two strategies had been chosen instead (Porter, 1982).[5]

More recently, Wright (1987) qualified the belief that the differentiation strategy signifies a reduced market share and very high profit levels by stating that leaders of big companies with a high market share develop differentiation strategies and manage to achieve high profit levels. The following section will examine how these competitive strategies have been applied by the international hotel trade's leading hotel chains.

EXAMPLES

Cost Leadership Strategy

The following are examples of leading international hotel chains that have chosen to introduce the cost leadership competitive strategy for some of their brand names.

Cendant Corporation

Cendant Corporation has, among others, the following five brand names.

Super 8 Motels. This chain was founded in 1974. It was given this name because the first hotel to open under this brand name charged an average daily room (ADR) of $8.88. Super 8 Motels owns a total of 125,844 hotel rooms in 2,076 U.S. motels, making it the company brand name with the most hotels.

Travelodge Hotels. This brand name was created in 1935. It has 598 hotels with approximately 47,688 reasonably priced rooms throughout the United States.[6] This type of hotel is directed at both business travelers and tourists.

Knights Inn. Founded in 1972, this hotel chain has nearly 205 hotels and a total of 15,540 rooms. It offers limited hotel services and is focused on clients with a medium level of purchasing power who travel during the course of their work. Its marketing strategy focuses on long-distance truck drivers. For example, they give a 10 percent discount to American and Canadian automobile associations.

Days Inn. This chain is directed at clientele with a medium level of purchasing power. This company brand name possesses the greatest number of hotel rooms, with a total of 153,701. The company's slogan, "Follow the Sun," is indicative of the chain's strategy, as it plans to open hotels throughout a large part of the world.

Accor

Accor owns the Ibis, Formule 1, Etap, Motel 6, and Red Roof Inn brand names.

Formule 1 and Etap. These are Accor's most reasonably priced brand names. The company defines Formule 1 as a zero-star hotel, while Etap hotels are considered to be "one-and-a-half" star hotels with a few more services than those offered by Formule 1, although they are still in the lower price range. Etap hotels are moderately priced and vary in architectural style.

Ibis. These hotels offer limited services and are directed at business travelers and tourists. About half the brand name's hotels are located in city centers, strategic and/or tourist areas, or near airports.

Motel 6. This is a chain of roadside motels, most of which are in the United States (with a minor presence in Toronto, Canada, since 1999). It competes directly with brand names such as Travelodge and Days Inn, both of which belong to Cendant Corporation.

Red Roof Inns. This is a chain of U.S. roadside motels, present in thirty-eight states, mostly in the Midwest, East, and South. Its clients are mainly business travelers.

Choice Hotels International

Choice Hotels International owns the brand names Sleep Inn, Rodeway Inn, and Econo Lodge, among others.

Sleep Inns. These are reasonably priced hotels that are refurbished on a regular, mandatory basis. They have rooms with automated systems and limited services, with fourteen employees per 100 rooms.

Rodeway Inns. These are inexpensive hotels with conference rooms, full restaurant service, and a swimming pool. Some rooms are specially adapted for elderly guests.

Econo Lodges. These offer rooms with limited services at reduced rates. They have conference rooms and a swimming pool.

Marriott International

Marriott International has, among others, the following three brand names.

Fairfield Inn. These are one-half–star, reasonably priced hotels offering limited services.

SpringHill Suites. This brand name, which offers a limited number of services, replaced the Fairfield Suite brand name during the last quarter of 1998, incorporating all its hotels (characterized by suite-based accommodation only) that were already in operation or in the process of being built.

TownePlace Suites. This is a reasonably priced product for longer stays. The suites have work areas and emphasis is placed on the hotels' services and homelike comforts and conveniences.

Other Companies Using Cost Leadership Strategy

Hilton Hotel Corporation. Its brand names include Hampton Inns, which offer limited services, and Hampton Inn & Suites, whose hotels offer a combination of traditional hotel rooms and residential-style suites.

InterContinental. Its brand name Express by Holiday is directed at the cheapest end of the market (mainly in the United States). With limited services and facilities, its hotels are reasonably priced and less expensive than Holiday Inns'.

Differentiation Strategy

Marriott International

Marriott International has the Ritz-Carlton brand name, directed at the luxury segment of the market. Although J.W. Marriott Hotels might be regarded as being in the same category, Ritz-Carlton hotels tend to be deluxe properties that are a cut above Marriott International. Most operate under the name Ritz-Carlton, although some have their own individual names.

Starwood Hotels & Resorts Worldwide

Starwood Hotels & Resorts Worldwide operates a brand name called The Luxury Collection/St. Regis. Launched in January 1995 as "The Luxury Collection," this brand name is still lacking in definition. The name, which sounds more like a description than a trademark, is used by some Ciga and Sheraton hotels.

Four Seasons

Four Seasons, with its two brand names, Four Seasons and Regent, is positioned at the top of the international hotel industry's highest segment. Executives aim for each hotel to be the local market leader. Four Seasons' existing inner-city hotels and those under construction are located in some of the top commercial and business centers, which normally have easy access to tourist attractions.

Hyatt

Hyatt's deluxe Grand Hyatt brand name is also based on the differentiation strategy. This brand serves large business destinations, and large-scale meetings and conventions. The business hotels include state-of-the-art technology, sophisticated business and leisure facilities, banquet and conference facilities of world-class standard, and specialized programs.

Carlson Hospitality Worldwide

Carlson Hospitality Worldwide has a prestigious brand name called Regent, directed at the luxury end of the market. Since 1970, it has been providing discerning business and leisure travelers with the highest standards of luxury hospitality.

Shangri-La

Shangri-La's Shangri-La Hotels and Resorts are mainly five-star hotels. Its inner-city hotels tend to be bigger than its holiday hotels. Most have over 500 rooms. The name Shangri-La was inspired by James Hilton's legendary novel *Lost Horizon*. A tranquil haven in the mountains of Tibet, Shangri-La wants to be recognized as a synonym for paradise (www.shangri-la.com).

Hilton Hotels Corporation

Hilton Hotels Corporation[7] dedicates its Hilton Hotels brand name to this strategy. These are high-class hotels located in big business centers, leading cities, airports, and tourist resorts in the United States. The brand name's flagships are the Waldorf Astoria, the Hilton Hawaiian Village Beach Resort and Spa, and the Palmer House Hilton.

InterContinental

InterContinental devotes its InterContinental brand name to this strategy. These are five-star, well-established luxury hotels with an excellent reputation worldwide. The newest hotels are large capacity, with an average of 370 rooms (excluding Global Partner Hotels & Resorts), and they are located in the world's largest cities.

Sol Meliá

Sol Meliá's Gran Meliá subbrand name also uses the differentiation strategy. It is aimed at the Meliá's top segment of the market. These hotels are located in the centers of the world's leading cities and in some top tourist resorts.