



# *Achieving Growth in the Luxury Market*

THE LEADING HOTELS OF THE WORLD (LHW) LEVERAGED BRAND EXTENSION, JOINT VENTURE PARTNERSHIPS, AND STRATEGIC ALLIANCES TO MAKE REVENUES AND PROFITS SOAR AS WELL AS TRIPLE SHAREHOLDER VALUE.

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**I**n *Travel + Leisure's* "500 Greatest Hotels in the World," 114 on the list are members of Leading Hotels of the World (LHW). LHW members are so impressive that these hotels, such as the CopaCabana Palace Hotel in Rio de Janeiro, have been the meeting place of kings, princes, and presidents. Other member hotels include The Plaza in New York City; Majestic Barriere in Cannes, France; and The Oberoi in Sahl Hahsheesh, Egypt. First-class service is the norm. More than 400 hotels in 80 countries with an average nightly fee of \$376 have joined



ILLUSTRATION: COURTESY OF LEADING HOTELS OF THE WORLD

Leading Hotels of the World. As the largest and best-known group of luxury independents, LHW works to promote the interests of its member hotels by providing association with its five-star hotel brand and access to many LHW services, such as extensive sales and promotional activities, advertising and public relations support, and an array of special programs for member hotels and their guests. Member hotels benefit from the affiliation while, at the same time, they retain autonomy and control.

Founded in 1928 as a luxury hotel-reservation processing company, The Leading Hotels of the World, Ltd., which is headquartered in New York City, has evolved into a highly recognizable luxury brand within the luxury hotel market. The company has spent the last decade transforming itself from a reservation-processing company into a luxury powerhouse. Leading Hotels provides a compelling lesson in how to effectively achieve growth in the luxury market and today has positioned itself to meet its vision: “To become the preeminent provider of products and services to luxury hotels and to the luxury marketplace.” Let’s take a closer look at how the company grew into a worldwide powerhouse.

### **THE 1990S: TRANSITION AND OPTIMISM**

While the organization continued to successfully promote stays at its member hotels, LHW management realized in the early 1990s that continued growth of its core business—luxury hotels—would be difficult to maintain since the organization had already penetrated many of its targeted global markets. While all organizations struggle to design business strategies that effectively promote growth, this task is especially daunting within the constructs of the luxury brand market because increased penetration of existing markets could dilute the brand. Therefore, LHW management needed to differentiate LHW services while growing their core brand at the same time. In effect, the company had to form partnerships and leverage its well-known brand name into new profit-generating ventures.

Led by Paul McManus, president and chief executive officer, senior management transformed LHW into a full-service luxury hotel brand over the past decade. They cultivated the Leading Hotels of the World global hospitality image and implemented specific marketing and Internet strategies previously unavailable within the luxury hotel segment. The successful transformation resulted from a competitive strategy based upon careful analysis of market conditions and industry trends.

McManus joined The Leading Hotels of the World, Ltd.



in 1992 as vice president of marketing. In 1993 he became executive vice president, assuming various duties associated with the president’s office while continuing with his responsibility for the company’s worldwide marketing efforts. Appointed president and CEO in January 1998, McManus and LHW Chairman Jean-Jacques Gauer began to rethink the organization’s corporate mission and overall philosophy. Their conclusion: The organizational direction should shift from simply reservation taking to a more aggressive strategic marketing position. As part of the process, in 1998 LHW changed its focus from a not-for-profit business to an ongoing concern and developed plans to raise additional capital.

Management began the transformation by refocusing on developing shifts in its customer base. They conducted market studies that indicated shifting market trends were taking place and developed a strategic analysis of how LHW could provide additional value to its existing and—perhaps more importantly—its potential customers. By 1999, the executive team decided that the time was right to grow the LHW brand. The first move was to extend the brand and provide the same services to world-class hotels with 100 or fewer rooms. Instead of simply creating a competing brand, they decided to strategically leverage the Leading Hotels of the World brand by naming the new brand extension the Leading Small Hotels of the World. According to McManus at the end of 1999, “We had 80 hotels. We could have had 400. That’s how high the demand is.” Creating the Leading Small Hotels of the World was only the first of what would become a number of many strategically planned moves to keep Leading Hotels of the World in the forefront of the minds of the world’s most discriminating travelers.

### **2000-2004: RAPID CHANGES IN TECHNOLOGY AND MARKET**

By January 2000, McManus and Gauer initiated several other strategic moves that would ultimately reinvent and, at the same time, continue to expand LHW. These factors

prompted the shift:

- ◆ While economic growth in the United States, Asia, and Europe led to increased affluence and increased spending on luxury items, future growth would become increasingly difficult without diluting the existing LHW brand.

- ◆ Affluence increased among a younger demographic driven by the dot-com boom.

- ◆ Guests in this segment were becoming more discriminating and demanding.

- ◆ The firm faced capitalization issues.

- ◆ Changes in technology were beginning to impact the servicing of guests but also offered the opportunity for more efficient reservation processing along with inherent cost-structure savings.

By the end of 2000, LHW had completely restructured itself, instituting a unified fee structure for its member hotels under a “for-profit” management philosophy. In addition, they significantly increased spending associated with marketing, e-commerce, and the Internet. McManus says that the organization “could not remain a luxury brand with unbridled growth” but could still expand its core business by forming partnerships and leveraging its well-known brand name into new ventures. This led to the introduction of the Luxury Alliance, a group of partners representing joint marketing efforts, and the development of Leading Ventures, a group of new business lines designed to deliver value to member hotels and increase company revenues. Established in 2001, Leading Ventures is LHW’s primary vehicle for expansion.

Through Leading Ventures, LHW launched nine new businesses between 2001 and 2004 to deliver value to member hotels and increase company revenues. Since implementing the joint venture structure, shareholder value tripled within 3.5 years beginning in 2000. Currently, Leading Ventures is responsible for generating approximately 45% of LHW’s profits as a direct result of creating the following businesses:

- ◆ Leading Career Services provides permanent job placement and internship programs.

- ◆ Leading Financial Services processes travel agent commissions and instant guest check currency conversion.

- ◆ Leading Group Sales generates group lead referrals and meeting planning services.

- ◆ Leading Hotel Schools of the World provides services to both students seeking a career in hospitality as well as experienced industry managers who want to continue their education. Services include internship placement, permanent job placement, customized on-site

training, and customized e-learning.

- ◆ Leading Interactive Reservations provides online reservation capabilities, online advertising, and marketing services.

- ◆ Leading Quality Assurance conducts hotel inspections, consultancy seminars, competitive analysis, benchmarking, service training, and spa inspections.

- ◆ Leading Service Provider Network consists of companies and consultants chosen for quality and value as recommended providers of support services to member hotels. Services in the network include advertising, communications, e-marketing, crisis management, event planning, photography, property management services, printing and direct mail, consulting, Web support, and training.

- ◆ Leading Trust, a real estate investment vehicle, provides capital to member hotels for improvements, allows family hotel owners to sell all or part of a property, and provides asset management services.

- ◆ Leading Insurance Services partners with Aon Corporation to assist member hotels in addressing a full spectrum of insurance needs while ensuring maximum coverage and reducing costs.

## FUTURE CHALLENGES

How can LHW continue to grow successfully in the luxury market? The organization’s past successes resulted from competitive strategies developed on careful analysis of market, industry, and consumer trends. This approach will continue.

Kimberly Hehir, vice president of strategic planning, notes that LHW pursues a four-step analysis to assist with strategic planning:

- ◆ Analyze the current and future operating environment,

- ◆ Evaluate current market conditions,

- ◆ Determine industry trends, and

- ◆ Identify consumer trends.

LHW management then uses the analysis to develop a strategic response to opportunities and threats arising from market conditions and trends. Management recently conducted this analysis, identified significant market conditions and trends, and developed appropriate LHW responses.

### Step 1: Analyze the Current and Future Operating Environment

Currently, the average fee for a one-night stay at an LHW hotel is \$376. Clients have an average household income in excess of \$240,000 and an average net worth of \$1.6 million. In addition, 84% of their customers are college educated, and 64% of them have continued with

# Table 1

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>◆ Brand strength, value, and position in the worldwide luxury market (largest brand in the luxury market)</li> <li>◆ Large and affluent customer database</li> <li>◆ Customer loyalty with highest level of repeat business in the industry</li> <li>◆ Forward-looking, entrepreneurial management</li> <li>◆ Strong, unique, and differentiated member hotel base</li> <li>◆ Hotels with strong sense of place</li> <li>◆ Complete resource for the luxury lifestyle (i.e., business, leisure, and family)</li> <li>◆ Global reach with local knowledge</li> <li>◆ Extensive network of respected luxury partners and alliances</li> <li>◆ Corporate buying power (i.e., negotiated rates)</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>◆ Large infrastructure compared with revenues</li> <li>◆ Lack of capital for investment in technology and new ventures</li> <li>◆ Shareholders who are also clients</li> <li>◆ Complicated governance structure</li> <li>◆ Lack of system-wide compliance and program participation</li> <li>◆ Greater recognition with trade than consumer because consumer lacks complete understanding of what LHW does</li> <li>◆ Perception of LHW as “old world,” resulting in a lack of appeal to younger customers</li> <li>◆ Individual hotels, especially those in Europe, are more recognized than the LHW brand</li> <li>◆ Customers have higher loyalty to hotels than to LHW since the company captures only 5% of overall room bookings</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>◆ Individuality vs. uniformity</li> <li>◆ Partnerships and alliances</li> <li>◆ Leveraging the LHW brand to generate new revenue streams</li> <li>◆ Leveraging the LHW infrastructure</li> <li>◆ Retention of growing chains and groups</li> <li>◆ New business lines and joint ventures</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>◆ Industry consolidation</li> <li>◆ Differences between people who want change and those who do not</li> <li>◆ Loss of small but quickly growing chain and group hotels</li> <li>◆ Online travel distribution competition</li> <li>◆ Damage to integrity of brand due to rate parity</li> <li>◆ Difficult to track the customer</li> <li>◆ Lack of control of inventory</li> </ul>

postgraduate study. These same clients also take roughly 24 trips per year with 21 stays at luxury hotels. Leading Hotels customers are prolific travelers spending 63 nights a year in hotels—31 nights for business and 32 for leisure.

Members of the Leaders Club, LHW’s frequent guest program, can enjoy concierge services that include arranging for a Porsche or other “high-end” car, dinners at world-renowned restaurants, or even a helicopter ride from a local airport to their hotel. “These people expect it to be done effortlessly and seamlessly,” McManus says of the concierge services. “They don’t care about the cost, but they want it done right.”

LHW management recently evaluated the current and future operating environment through an analysis of the

organization’s strengths, weaknesses, opportunities, and threats (SWOT analysis). Table 1 features the results. The analysis helps to highlight and position Leading Hotels of the World as an industry leader. It identifies the strengths and opportunities that LHW can leverage while highlighting the company’s weaknesses and emerging threats that the company must strategically manage to maintain its competitive positioning.

**Step 2: Evaluate Current Market Conditions**

Table 2 explains market conditions and an appropriate LHW response.

**Step 3: Determine Industry Trends**

Table 3 features LHW management’s analysis of the

## Table 2

MARKET CONDITIONS	LHW RESPONSE
◆ Decreased industry demand since September 2001 due to 9/11, the Iraq War, SARS, fear of terrorism, and recession	◆ Rate maintenance through value-added packages
◆ Most economies in the recovery stage	◆ Opportune time to launch new business lines
◆ Recent deterioration of the dollar impacting travel	◆ Institute Dollar Exchange Rate Program to guarantee dollar rate to customer
◆ Expansion of the European Union	◆ Increased demand for destinations in new EU countries suggesting LHW should increase membership in those areas
◆ Rising oil prices	◆ Negotiation of discounted rates with travel partners

## Table 3

INDUSTRY TRENDS	LHW RESPONSE
◆ Consolidation	◆ Alternative pricing model; expansion of Leading Trust to facilitate ownership changes among member hotels
◆ Growth in online distribution	◆ Leading interactive reservation strategies
◆ Deregulation of the GDS, an industry central reservation system in the U.S., since January 2004, with deregulation expected to happen in Europe as well	◆ Develop relationships with providers (but they likely will also provide competition to LHW)
◆ Changing role of the travel agent, with many people planning trips without an agent and larger agencies consolidating	◆ Opportunity for agents to add value; support agents through incentive programs
◆ De-homogenization of the hotel product	◆ Luxury customers want distinct experience (LHW is strong here, but this factor will impact decisions related to member-wide programs)
◆ Increased interest in spa services and products	◆ Introduction of Leading Spas of the World
◆ Technology expectations, such as Internet access	◆ Consider Internet access as new Leading Quality Assurance standard by providing discounted and complimentary Internet services through partner companies
◆ Customer relationship management	◆ Collect data through the Leaders Club program and member hotels
◆ Emerging markets	◆ Open offices and add member hotels (in 2004, offices opened in Mumbai and Dubai, with Shanghai to open in 2005)

# Table 4

CONSUMER TRENDS	LHW RESPONSE
◆ Buying the experience with the experience being more than the hotel property	◆ Promote customized LHW approach to increase reservations
◆ Value-driven decision making	◆ Introduce packages including Leading Vacations to offer value
◆ Affluent get younger	◆ Aim promotions such as Leading Honeymoons and others at younger consumers
◆ Shorter trips	◆ Increase stays with One More Night and other packages
◆ Shorter booking lead times	◆ Partner with “last-minute” online distributors
◆ Increase demand for vacation-ownership products	◆ Implement Leading Residence Club

industry including trends and recommended LHW responses.

### Step 4: Identify Consumer Trends

Table 4 shows significant consumer trends and possible responses to these trends.

LHW’s ability to identify and act on changing customer trends requires better use of customer information. The organization increasingly focuses on its ability to capture, keep, and better use customer information to heighten guest experiences. As Paul McManus says, one of the most sought-after components of Leading Hotels of the World’s many services is their customer profiles. “We know what kind of pillows they like, if they want Diet Coke in their room, and what flowers they like,” he adds.

Based on analysis of consumer trends, LHW will launch Leading Spas of the World in 2005 and will partner with an industry leader to launch an LHW-branded Luxury Residence Club, which will increase demand for vacation-ownership products.

### STRATEGIC EXPANSION

Additional alliances with providers of other luxury goods and services will enable LHW to expand into more segments of the luxury market. Increasingly, current and potential clients are accessing LHW through the Internet rather than a travel agent. This transition requires LHW

to carefully promote its brand directly to the public while maintaining its focus on the travel agents that still serve as a gateway to 80% of clients.

From its beginning as a luxury hotel-reservation processing company, The Leading Hotels of the World, Ltd. today commands a majority share of the world’s luxury travel business. Realizing that continued expansion of their hotel base could lead to brand dilution, LHW management instead sought to strategically expand the brand while moving into diverse though related areas not usually associated with a luxury hotel brand. The initiatives have seen results. ■

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