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An Examination of Strategic Drivers Impacting U.S. Multinational Lodging Corporations

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ABSTRACT

Top executives from four major multinational lodging corporations were interviewed on corporate strategies to identify key strategic drivers for creating value in the global lodging industry. In the face of greater environmental uncertainty, global competition, and technological change, it is imperative that multinational lodging firms develop strategies for protecting their domestic franchises and expanding internationally. The findings reveal shifts in current business models, strategies for changing brand architecture, searches for profitable new markets, commoditization and differentiation of the product, and development of customer-centered functional strategies. Implications of these strategic changes for the lodging industry are discussed.

Key words: Corporate Strategy, Hotel, Lodging, Global, Franchise, Loyalty, Human Resources, Technology, Culture.

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INTRODUCTION

The U.S. lodging industry has seen its share of ups and downs over the first half of the decade. In the early 2000s, the industry was challenged by levels of environmental uncertainty that were unprecedented in its history. Post-9/11 travel fears, the SARS epidemic, and war in Iraq, combined with an already sagging economy, resulted in across-the-board decreases in operating statistics for lodging properties which had not been seen in decades. In 2002, for instance, occupancy percentage, average daily rate, and revenue per available room (REVPAR) were all down from 2001 by 1.0 to 2.5 percent, while industry profitability dropped 9.6 percent, on top of the 19.4 percent drop seen in 2001, marking the first time profits have dropped in two consecutive years since 1982-83 (Smith Travel Research, 2002). Consequently, lodging companies had to take extraordinary measures to respond to these economic shocks. Examples included closing restaurants, cutting staff (130,000 jobs eliminated in 2001 and 2002 combined), shifting marketing efforts, and getting control of the E-Distribution market, which had driven down room rates (American Hotel and Lodging Association, 2003).

However, the industry has proven itself to be resilient. In 2005, the lodging industry not only survived but prospered, even after the economic and geopolitical shocks resulting from high gas prices, health alerts, tremendous natural disasters, and several terrorism bombings in global travel markets and destinations. PricewaterhouseCoopers forecasted an 8.1 percent REVPAR growth in 2005, which is the highest since 1984, and virtually every other performance measure is expected to increase at a faster rate than last year (McInerney, 2005). While the immediate future does look bright, there are many analysts who still question whether the lodging industry, as a whole, is prepared to address continued concerns about security, technology, economic impacts, and more.

The environmental issues mentioned above represent just some of the myriad of threats and opportunities that leading lodging corporations must address in order to achieve their goal of becoming, over the long term, global leaders in market position and profitability. These firms seek to expand and grow their businesses internationally by attracting new and profitable customers, leveraging internal and external business relationships, managing supply chains for greater cost efficiencies, generating revenues and margins through demand-supply elasticity driven pricing, and controlling costs without sacrificing service through operational and workforce management. In the face of current shocks and threats, such firms must make new strategic choices that affect how they satisfy these key business objectives. For example, in order to sustain current and future cash flows firms must carefully consider the mix of customers to target internationally, the portfolio of services to offer, and the geographic markets in which to compete. Simultaneously, they must evaluate consolidation, diversification and crisis management.

The emphasis on corporate strategy as a research theme reflects the importance of these issues. While studies have been conducted examining the process wherein corporate strategy is developed or determined, no studies of global industry changes and firm strategies have been conducted of diversified U.S.-based multinational hospitality firms (Laroche & Parsa 2000; O'Neill et al. 2004). In the face of greater environmental uncertainty, global competition, and technological change, it is imperative that multi-national firms develop strategies for protecting their domestic franchises and expanding internationally. This research will identify and analyze the strategic drivers of U.S. based multinational hospitality firms.

METHODOLOGY

Multinational lodging companies with leading and broadly diversified brands were targeted for inclusion in this study. The research was funded by a grant from the Alfred P. Sloan Foundation Travel and Tourism Industry Center. The amount of the grant was sufficient to cover travel expenses for one to two day trips by two to three researchers to four corporate headquarter locations across the U.S. The four multinational lodging firms that participated in the study will not be identified in this paper in order to ensure the anonymity of those interviewed. The companies will be referred to as lodging corporation A, B, C, and/or D, throughout the study.

A blend of quantitative and qualitative approaches was used for this study. Both secondary (industry studies and corporate records) and primary (interviews of key executives) data were collected. Executives responsible for corporate strategy and business development (see Table 1) were interviewed by the researchers using a structured, one-on-one format, with 5-6 executives participating per firm. Interview data were analyzed using a constant comparative method to generate grounded theory (Glaser & Strauss, 1967). Interviews were conducted on a company-by-company basis (e.g., all interviews were conducted at one company before moving on to the next company). This ensured that each subsequent set of company interviews would incorporate the relevant issues from the previous data analysis. Thus, as grounded theory methodology prescribes, data collection and analysis remained an interrelated process (Taylor & Bogdan, 1998).

The primary research method for the study was grounded theory. Grounded theory generates theory through research data rather than testing ideas formulated in advance of data collection. As core categories of findings emerge from the data, the research identifies actual theory utilized in industry (Seale et al., 2004). Grounded theory unlike many other methods of research connects theory to evidence through engagement with data, rather than deduction. Insights are "grounded in and developed from the data themselves." (Taylor & Bogdan, 1998). Perhaps most importantly the use of grounded theory for this study allowed industry, not the researchers, to formulate the theory and data (Taylor & Bogdan, 1998). The theory is developed from and "grounded in" real world patterns (Glaser & Straus, 1967; Patton 1987).

Validity in grounded theory comes as the emerging theories are tested against the data collection as a whole (Patton, 1987; Seal et al., 2004). For this project specifically, the trends and strategies mentioned by one executive were compared to and validated by other executives in the same corporation and with executives in other corporations. Grounded theory in its process validates the data. Coding or determining patterns from the interviews with those of the next interview, next corporation, and so forth validate the data. Adding strength to the validity of the grounded theory method is that the study examined executives at four of the eight major multinational hotel corporations, achieving a sample size of 50% of the population. The validity for the study is given strength due to the level or ranking of the executives participating in the study. Top or senior level executives responsible for setting and determining strategy were selected and interviewed.

Reliability requires the researchers to determine if similar results could be expected were the study to be conducted using other samples, or in this instance other corporations. Grounded theory confirms reliability by requiring the researchers to identify similar trends or evidences of the theories in the literature (Silverman, 1997). The process of grounded theory reverses the traditional research process. Researchers are first required to code the data, developing findings from the data. The researchers then examine the literature to determine the existence of the finding, trend or theory. Each finding for this study was checked against the literature to determine its continuation for at least one of the remaining four corporations not included for this study.

Executives from each company answered questions about corporate strategy: models of diversification and risk management being utilized, key strategic drivers currently being deployed, factors shaping strategy in the global hospitality industry and strategic responses to those factors, internal changes (i.e., structure, systems, and processes) required to transition their strategies, benchmarking of other industries, and impact of these changes on firm profitability. Interviews lasted 45 to 75 minutes. As grounded theory prescribes, the interview process is continually *****adapted (need better word).* For the example of this study: initial interviews asked respondents to discuss changes to strategy as a result of the economic downturn exacerbated by the terrorism attacks occurring on September 11, 2001. Executives in the early interviews indicated that the corporations had already recovered from the downturns experienced from this tragedy, noting that this did not figure into their strategic plans or drivers.

After each set of company interviews, transcripts were made from digital audio recordings. The transcripts from each set of interviews were then checked against the recordings, read, and re-read for coding. The coding process identified themes or categories that describe strategic drivers. Several weeks evolved between work on each set of interviews to allow categories to emerge from each set independently. These categories were then noted and coded. Comparisons between interview sets were made after all interviews were completely coded, and the categories were written up into descriptive text (Wolcott, 1994).

Profiles of the lodging corporations interviewed

Lodging corporation A was a publicly held multinational corporation with reported annual sales for 2004 of $2.8 billion. It franchised over 6396 hotels in approximately 40 countries worldwide for the year 2004. Lodging Corporation A had strategic business units in travel product (hotels, timeshare product, and timeshare exchange), travel distribution, rental car, and real estate.

Lodging corporation B was a privately held multinational hotel corporation with reported annual sales for 2003 of $3.6 billion. It operated or franchised over 455 hotels in approximately 43 countries worldwide for the year 2004.

Lodging corporation C was a publicly held multinational corporation with reported annual sales for 2004 of $3.6 billion. It operated or franchised over 500 hotels in approximately 20 countries worldwide for the year 2004.

Lodging corporation D was a publicly held multinational corporation with reported annual sales for 2004 of $10 billion. It operated or franchised over 2,676 hotels in approximately 65 countries worldwide for the year 2004. Lodging corporation D had strategic business units in hotels, and timeshare.

FINDINGS

Several issues emerged surrounding corporate strategy: (a) shift in ownership model of the hotel industry; (b) changes in brand architecture: consolidation, loyalty programs, commoditization, concentration, diversification, and downscoping; (c) search for profit pools such as international expansion and niche markets; (d) commoditization of the product and the need for differentiation; and (e) functional strategies such as the use of information technology, customer relationship marketing, and human resources.

Shift in ownership model

One of the dominant strategies presented by the executives throughout the interviews was the changing ownership model of the hotel industry. Throughout the past 20 years the hotel industry has evolved from one of a hotel asset management model to a contract and fee based management model (Adams, 2005; O'Neill & Matilla, 2004; Ratner, 2005). Hotel asset ownership and its associated risk have shifted from the major lodging corporations to individual owners or smaller ownership companies, with the major lodging corporations retaining management contracts or franchising agreements (Nykiel, 2005). One executive described this change: "The mix of business has shifted from an ownership standpoint toward franchising." An executive from another corporation described it as "a shift more toward fee business, away from the hotel assets." And still another executive from a third corporation described the change as an ownership model "where you are not owning all the hotels and real estate, you are issuing management contracts and franchising agreements."

While all of the lodging corporations indicated an increased move away from the corporate asset ownership model towards the individual owner/operator franchise or management contract model, the rate and extent of the change in ownership model varied among the corporations. Lodging corporation A had experienced rapid expansion in recent years through the franchise ownership model, while lodging corporation B had its very first foray into franchising only within the past year as a result of an acquisition. Lodging corporation C was divesting itself of ownership of all but its flagship properties. And lodging corporation D had in recent years directed all of the asset ownership into a separate holding company or corporation. All four of the lodging corporations were aggressively pursuing a reduction of invested capital in hotel assets or hotel ownership. Many of the executives interviewed also pointed out similar changes in ownership models in some of their competitors who were not included in this phase of the study. Thus it appears that the changing ownership model is prevalent throughout the hotel industry.

The differences in ownership and capital models also create a difference in strategy as those corporations with high concentrations in fee based business have additional stakeholders in the individual owner/operator of the hotel. For these corporations, bringing increased value to the franchisees is a major corporate strategy. One executive explained: “We have to look at the consumer as well as the franchisee as our customer.” Another told of this shift in strategy “We now concentrate on pleasing the franchises.” Several executives indicated new initiatives in creating brand loyalty with not just the consumer, but the owners and franchisors as well.

The franchising model has permitted higher growth rates and increased market share with lower levels of corporate capital investment. During times of market fluctuation, corporations holding hotel assets experience increased variances in their financial performance and risk, than do those corporations which are primarily management companies. Franchising has also provided the benefit of increased risk management. Thus the change in ownership model has allowed for more rapid expansion as well as increased risk management. Franchising has also facilitated expansion into some international markets.

The changing ownership model is changing the vary nature of several of the corporations interviewed. Corporations that began and grew as asset management companies find themselves no longer in the real estate business, but in the business of brand management. This evolving ownership model will change the structural and economic models of these corporations in the years ahead.

Changes in brand architecture

Consolidation

The lodging industry has experienced a period of consolidation with numerous mergers and acquisitions in recent years (Canina, 2001; Chathoth & Olsen, 2003; Harrison & Enz, 2005; Nykiel, 2005; Olsen, M.D., Tse, E.C., & West, 1998). This was also true of the corporations interviewed. All of the lodging corporations had been active and/or were still in the active stages of completing mergers and acquisitions of other lodging corporations, to diversify their product portfolio. This trend in acquisition and consolidation is projected to continue (Bansal, 2006; Coy, 2006). Several executives projected continued consolidation of the market, resulting in "three or four or five hotel companies left" with little to no small players remaining.

Consolidation has been the catalyst or the center of several strategic shifts. Consolidation naturally brings about concerns of synergy and fit. A major strategic driver fueling the consolidation trends has been the desire of the corporations to have a product available at every price point. Finally, consolidation of the industry has contributed to the increased power of the brand, and the role and importance of loyalty programs.

Organizational Fit/Synergy.

Consolidation brings concerns of synergy and fit in both systems and people. For those corporations which had experienced significant mergers or acquisitions in recent years, seamless technology or the ability to implement technology standards across the brand is a significant challenge.

Successful mergers and acquisitions rely on synergies and organizational fit (Harrison & Enz 2005). All of the lodging corporations indicated recent struggles with organizational fit as a result of mergers and acquisitions. In some cases the very culture of their corporation had undergone or was undergoing significant transformation. For several of the corporations, the acquisitions or mergers initiated the changes from a hotel asset company towards the fee based business model. Some of the corporations were still addressing obstacles to organizational synergy such as the consolidation of geographically disparate corporate offices. Yet in all, the synergy seemed on the surface to be complete with the executives from each corporation all playing on the same team.

Organizational fit and high performance cultures can be difficult to achieve in large organizations (Harrison and Enz, 2005; Olsen et al., 1998). However for lodging corporation D company culture, or the system of shared values, was viewed as one of their strongest competitive advantages. Creating and maintaining the culture was prominent throughout their strategies.

Product at every price point

All of the corporations interviewed indicated a desire or need to have product available to the consumer at every purchase point and price. The following comments were made by interviewees illustrating this point:

> "[It is important to] have enough different products that are unique and/or enough different price points and different geographical distribution so you can provide hotels to people based upon their reasons for travel."
>
> "Those companies that will do well are those that can serve customers who have different reasons for staying based on the occasion of travel.
>
> "A portfolio that runs from the economy sector all the way to the upscale is real value added as consumers evolve and their interests evolve."
>
> "Everything that we have concluded is that to have a portfolio that runs from the economy sector, that runs all the way to upscale is real value added as consumers evolve and their interests involve."
>
> "Everyone is looking to have brands that strategically cover all the market segments and the needs of the customer."
>
> "And so I think to be successful in our industry you have to have enough different product types that are unique, and/or enough difference price points so you can provide hotels to people based on their reasons for travel."

"It would be wise for us to have a broader portfolio."

"We have somewhere for you to stay no matter what the reason for your travel."

As a result of the mergers and acquisitions, corporations are combining and phasing out brands in order to create a clear product line which is diversified and spread out over the value chain. The expansion and diversification of the brand portfolios was a pervasive strategy throughout all of the interviews conducted. This strategy has also been evident in corporations not interviewed for the study (Richter, 2005b; Richter, 2005c; Richter, 2005d).

The executives indicated several rationales for this strategy. The main thrust or purpose of this strategy is to capture more of the market and to create loyalty in the customer. There is a desire to have a traveler stay in their own hotel product regardless of the purpose or price of travel. But several executives also indicated this diversification has an additional benefit of risk management. As one executive explained: during periods of economic fluctuation the ability of the consumer to "trade up and down between price points is key." A final strategy professed by one executive is that the increase in brands allows more market penetration. There are often non-compete clauses in hotel development, prohibiting the development of another hotel in a certain geographic market. However, those prohibitions generally do not extend to the development of other brands within the same corporation. The differing products and markets for the brands may not primarily compete against one another allowing for a higher market penetration in a geographic region.

Similarly, several of the corporations have undergone a recent "purging of underperforming [hotel] properties," and others were selling their hotel property assets, converting towards a fee based business away from the hotel asset model (Burke, 2005). As one executive described: "we are now in a position to purge ourselves of underperforming properties and really look at how we operate the business on a day to day basis, and figure out how we drive revenue on a per-property basis instead of just driving a per-property growth."

Contributing to the repositioning of the brands has been an increase in consumer demands and expectations. One executive observed that the hotel product and quality of the brands have been repositioning upward in terms of services and amenities offered. The upgrades in services and amenities have been pervasive through the price points, from economy to luxury brands. This sentiment was reflected by other executives throughout the interviewing process and in the literature as well (Richter, 2005a). Some projected the cause to be increasing global travel: "there is a notion of increasing international standards."

Power of the brand

Some executives expressed that the very nature of the lodging industry is changing as a result of all the consolidation. They all indicated an increasing "power of the brand," as a result of acquisitions and industry consolidation.

The change in product distribution model brought about by the Internet has made the power of the brand even more important (Harrison & Enz, 2005). While the lodging corporations were divided on brand recognition or association of the brand name with the product, they each indicated an increased value to the consumer and to their franchisees by having stronger and more clearly differentiated brand associations (Keller, 1993). Yet from there, branding strategies are different across the corporations, with some homogeneous, and some concentrating on differentiation.

Loyalty Programs

Consolidation has also contributed towards a change in corporate structure as regards to loyalty, reward or frequent guest programs. As the corporations are expanding up and down the value chain, they are looking to keep the same customers with them throughout the value chain. The goal now is to have consumers look at a hotel chain as a continuous series of differing products which can meet all their varying needs; thus the increased importance of the loyalty programs.

These guest programs are no longer viewed as a discrete entity by the corporations or the consumer. According to an executive from lodging corporation C, Reward programs are “now an integral part of the industry – a core brand attribute”. The need for a consolidated brand reward program is now so strong that, for one corporation, consolidating the rewards program across their differentiated brands was the first declaration to the consumer that hotels were owned by one parent corporation. For each of the corporations interviewed management or oversight of the loyalty program is considered a core function with representation in top executive management structures. Other corporations which were not included in the study are showing indications of the increasing importance of brand loyalty programs (Jiang et al., 2002; Piccoli, et al. 2003; Shoemaker & Bowen, 2003).

Commoditization

The Internet has significantly changed the distribution of lodging product in the past five years. All of the corporations indicated a belief that the distribution channel for the lodging product has been more affected by the Internet than for any other industry, market or product. As one executive described “the biggest substantive change in the last five years has been the proliferation of the Internet and bookings on the Internet…there is no other industry that the Internet has affected as much.” An executive from lodging corporation C declared, “Internet distribution has restructured the travel industry. It has changed the entire industry and will continue to do so.”

Internet distribution has encouraged commoditization of lodging product, with consumers having extensive knowledge of prices and products, heretofore known only to the lodging corporations and reservation systems. The corporate executives expressed concerns of a movement towards a commoditized lodging product.

A commoditized marketplace brings concerns on several levels. An executive from lodging corporation C acknowledged, "Brand commoditization directly undercuts rate premiums and customer loyalty." Thus the concerns are that e-distribution will encourage consumers to purchase based on price, and not brand attributes, and that consumers will not remain loyal to the brand but will "jump ship" for lower prices. To combat these concerns the lodging corporations are actively pursuing various differentiation strategies to capture brand loyalty and rate premiums.

Concentration and Diversification

While the hotel and lodging industry has pursued many forms and levels of diversification in the past two decades, recent years have seen a move towards consolidation of assets around their lodging business. Lodging corporation A recently announced plans to spin off into four different companies with lodging as its own company. Lodging corporation C acknowledged efforts in "structuring as a pure play hotel company," eliminating non lodging businesses from their portfolio. This was also described by one executive as: "removing all the noise [to their portfolio] after 30 years."

The hotel organizations had pursued very little if any recent vertical integration or unrelated diversification. Only company D had engaged in unrelated diversification in the past few years and they indicated that the move was strictly for tax purposes. Overall, the corporations had recently divested or were making plans to divest themselves of non-hotel or lodging related businesses, with lodging corporation A indicating a desire to become a "pure hotel company." This trend has been proliferating throughout the hotel and tourism industry (Lafferty & van Fossen, 2001).

The same has not been true of related diversification. All four of the lodging corporations have been expanding the timeshare lodging product, with some more aggressively than others (Bruns, 2000).

Vertical Integration in the Distribution Channel

One area of diversification has been vertical integration. Several of the lodging corporations were seeking vertical integration through developments in the e-distribution process. Internet or e-distribution has significantly altered the distribution of hotel and lodging product in the past five years. Several of the executives attributed successful performance of their corporation to their success in this evolving distribution method: "Our distribution systems are clearly a competitive advantage."

The lodging corporations are seeking to realize the advantages of this method of distribution in different manners with some choosing to own existing e-distribution product and some making rapid changes in the development of their own e-distribution channel(s). One of the corporations indicated their reason for involvement in the distribution channel was for business intelligence or a better understanding of e-distribution that the involvement of ownership would require. "I can make decisions with more information than my competitors." This corporation predicts that in the future their competitors "will have to have more of a stake in the travel industry [e-distribution]." Another executive from this company explained that their involvement in the product distribution market allows them "to learn things…to become more sophisticated."

Search for Profit Pools

Niche Markets

The U.S. domestic upscale lodging market has reached a point of maturity and saturation such that growth is primarily through entrance into other markets (Silverman & Weilheimer, 2003). The lodging corporations interviewed were engaged in development and construction of new product within their existing brand structures, development of new brands for emerging and untapped markets and in brand conversions and acquisition of product. This is also true of other lodging corporations not interviewed (Bansal, 2006). All of the executives interviewed anticipated continued growth through ongoing development of new brands and products.

For lodging corporations B and C, which had previously had a portfolio weighted heavily towards an upscale product, the saturation of this market within the United States has shifted their growth strategies towards aggressive development of their own mid-tier product or through the acquisition of product in the mid-tier lodging sector. Other companies are indicating similar strategies for growth (Starwood, 2005). The executives of all four lodging corporations indicated that there had been “Limited opportunities to grow domestically without acquisition.” As discussed previously, part of the limited domestic growth opportunity is tied to risk management, and consequently away from greenfield property development and ownership.

However, not all of the expansion is projected towards the mid tier markets. Each of the corporations indicated they are developing or seeking product at various points in the price and product scale for other smaller target markets that are currently underserved. Pervasive throughout the interviews were statements that the corporations were each seeking to own product at every price point and reason for which a guest may have to travel. Executives at all of the lodging corporations predicted a continuing expansion of the brand portfolio in all types of lodging product, and across all the price points through both growth and acquisition.

International Expansion and Globalization

The opportunities presented by changing global demographics and the saturated U.S. domestic upscale market have encouraged international expansion (Harrison & Enz, 2005; Nykiel, 2005; Yu, 2005). All of the corporations indicated they were actively pursuing international development and expansion, or as reported by one executive, "There is a "large investment by the brand to grow internationally." Another executive in another corporation explained that for his company "the only way to grow is internationally." While another executive described this as a "real concentration overseas."

The primary focus of this expansion for the near future is Asia, with China receiving the most aggressive concentration. One executive from lodging corporation B said, "I think that everyone at this point has some form of Asian Strategy." The increase in wealth and population of China combined with the "proliferation of growth in roadways and the loosening of travel restrictions" all point towards considerable increase in travel to and within China. One executive so described his company's international expansions: "China is where the real growth is."

Most of the corporations indicated some interest in development of product in India as well. However they indicated very strongly that China was the main thrust of their current international expansion plans.

Beyond the Asian region, plans for international development vary with some lodging corporations actively pursuing resort development in the Middle East, some contemplating mid-tier development in South America and others seeking acquisition of international product. They all indicated however, that growth, if any, in Europe would be product or brand conversion.

The combination of the changing ownership models and the phenomena of the world growing smaller present some opportunities for international ownership in hotels in the United States. An executive from corporation D explained, successful owners in other parts of the world are no longer just looking for growth opportunities nationally, but they are seeking “the best opportunities on a worldwide basis.”

Within international expansion, there is an increasing focus on segmentation. In particular the expansion of the limited service and moderate priced lodging product is a strategy focus. One executive explained that up to this point these segments “have not been developed so to speak…there really has been no segmentation of the market in the international arenas.” An executive from another confirmed this theory by explaining his company’s emphasis on the development plans for their midscale lodging product.

Restructuring for Global Expansion

Two of the four lodging corporations had experienced recent corporate re-structuring or integration to encourage and accommodate the shift towards a global market, with a third corporation indicating a need to be “more global in their focus.” One of the lodging corporations recently acquired the international counterpart to its brand allowing it to aggressively expand its international portfolio (DeFoe & Credeur, 2005). For some of the corporations this restructuring has included changes in organizational structure, and redistribution of management geographically. As foretold by one executive in the study “We have to be more global in our focus.” Another executive in a different corporation described the changes in his corporation “we are in the process of integrating our domestic and international companies, whereas before they were operating as independent operation divisions." All of the lodging corporations have shown other indications of a move towards a more integrated global corporate structure with the consolidation of previously regional or national reservations systems, e-distribution, logos, and/or loyalty programs (Higley, 2006).

Functional Strategies

There were commonalities of concern among the executives in several of the functional or operational levels of lodging strategy.

Technology

Technology is predicted to affect the lodging industry in many ways (Nykiel, 2005). Discussion of forward moving technology and the Internet was rampant throughout the interview process with many models and predictions towards new products, processes and formats.

The resulting technological competencies that have come as a result of Internet technology are changing the very nature of the lodging industry beyond the distribution model. Hotel operations and physical product are expected to undergo rapid transformation in the coming years as the result of technology. One of lodging corporation B's executives projected, "Product initiatives [as a result of technology] domestically and internationally are going to change the way we do business." Another executive described the pervasive affects of technology: "Technology is not just entertainment anymore, it is the kiosk, the electronic locks, the way to turn off and on the lights, the telephone system….the amenities and technology improvement are rapidly changing."

The interviews captured predictions of changes ranging from energy efficiency, to in-room entertainment, to communications systems, to business solutions. The product from the room lock to the lobby structure is predicted to change as technology continues to expand. One executive forecasted that web based check in will be the primary method of room registration in the future. Simple core competencies of wireless communications and voice over Internet protocol (VOIP) are allowing the lodging industry to make sweeping changes in operations and staffing logistics.

Changes in seamless connectivity, pervasive or adaptive computing, self-service functionalities or technology enabled convenience, and the rapidly developing handhelds in the hotel business and with the individual consumer will change the basic operations of guest check in, billing, and many other parts of the guest stay. Keeping abreast of consumer technology is a strategic thrust for all of the hotel corporations interviewed.

Voice over Internet protocol (VOIP) is allowing hotels to consolidate back of the house functions, saving labor costs. Some hotels then move more positions and labor expenses to front of the house, while others absorb the cost savings. One executive described these changes "we can put the human body out front where customers are, and reduce the number of heads in the back of the house….more profitable, and more able to increase service levels that the customer looks forward to." An executive from a different corporation described this same change in staffing strategies: "We know that technology has saved some people. But what we have done is to redeploy those on customer facing activities…costs go down in one area, and up in the other., but the result is higher customer satisfactions which hopefully is the focus on the revenue side because you get the customers in."

Other changes in back of the house due to technology are the placement of manuals online and "really going virtual in terms of quality assurance processes." Most of the corporations indicated that training materials and programs were now on-line. And several of the corporations indicated utilizing technology to improve the quality assurance and guest comment process.

Another change in technology is the merger of frequent guest data with reservations data so that a frequent guest would not be given the same reservations rate restrictions or length or stay requirements as the general consumer. One executive described this process: “You may be in a market that is driving a special event rate, however you are a frequent guest who has stayed with us so much in the past that we would want to make the decision to sacrifice the increased room revenue for the night based on how much you have stated with us over time….we don’t do that well yet.” A key element in this executive’s description was the word yet. This corporation is actively pursuing technological changes to bring about this merger of data and intelligence.

Within the guestroom itself, there have been many recent initiatives to upgrade and evolve the product. Publicly advertised initiatives have disclosed upgrades in bedding, in room entertainment, and business connectivity. An executive from corporation D explained: “Guests expect to have the same things in their home that they have in their hotel.” Another executive described this movement in trends: “the travelers are becoming increasingly global and they expect to have the things they have at home and that they have found abroad…even the luxury tier is going north.” All of the corporations indicated a move towards “high choice, high quality entertainment” embedded throughout the hotel product and systems. The upgrade in product and amenities is also a trend for several of the corporations not interviewed (Coy, 2006).

These changes bring new financing questions. The lodging corporations are addressing issues from changing models of capital replacement reserves to product differentiation decisions. One executive predicted a forthcoming concern as economy brands seek to encompass the technological and amenity creep demanded by consumers while maintaining the economy pricing model. "Keeping the rate low, but offering the appropriate amenities" will be a challenge. Further, commoditization of technology downstream may erode product differentiation and hence premium pricing upstream.

Customer relationship marketing

Technology has also been the catalyst for significant changes in marketing strategy. The lodging industry as a whole has been lagging in moving towards one to one marketing and utilizing existing data to develop marketing programs more tailored to the individual consumer. However, each of the corporations indicated key strategies emphasizing customer centricity and for leveraging and enhancing the distribution models of both the lodging product and the fee based businesses. All of the lodging corporations indicated increased efforts and strategies towards capturing, and utilizing data about guests, their preferences, inclinations, patterns, and so on… to better serve the guest and to increase profitability.

For several corporations the loyalty programs combined with improvements in technology have allowed them to project a competitive edge in knowing the customer at "every touch point." For one corporation, throughout their brands, at each point of customer contact, guest information is available to the employee servicing the guest: "information about past and future behaviors, and travel needs." An executive from another corporation described the changes in guest loyalty and service: "Technology is allowing us to be much more personalized in customer experience and preplan people's visits; know who they are and be able to recognize those customers."

Loyalty or frequent guest programs have become an integral part of the corporate strategy for the lodging corporations. Lodging corporations C and D have expanded their executive teams to include this functional area, with lodging corporations A and B indicating significant strategy shift to embrace the importance of the loyalty programs as an integral part of their strategies. One executive described this change in strategy: "Guest loyalty programs are no longer a discrete entity from the overall brand experience…it has become a core brand attribute for the industry as a whole."

Human resources

Increasing growth of the lodging market, reduced labor pools, and shifting economies have created staffing concerns for many hotels (Coy, 2006; Crook, et al. 2003; Harrison & Enz, 2005; Holijevac, 2003; Nykiel, 2005). Put simply by an executive interviewed for the study "There is an HR void."

An executive from one corporation expressed similar concern "there is a skilled labor shortage at all levels, and all locations." Yet another executive from another corporation explained a similar concern: "Finding the right people, at all levels from housekeepers to management, is becoming increasingly difficult."

This problem is exacerbated by the rapid expansion in the industry. One executive explained: "We continue to open more and more hotels,…the notion of finding the right people and loyalty of people is going to continue to more and more of a problem for us."

Some of the lodging executives interviewed indicated a shift in human resource efforts as a result of the inability to hire sufficient "spectacular employees." Instead they find themselves engaged in "making the ordinary employee spectacular."

Human resources affect the hotel industry more significantly than many other industries. "The hotel industry is a labor intensive business, the ability to hire correctly, to train, and to limit the amount of turnover you have is important," an executive from corporation D explained. In fact corporation D estimates it has over 100,000 people comprising their workforce. The sheer numbers alone make the management of human resources an important part of their corporate strategy.

An executive from corporation C described the challenges in Human Resources clearly: “How do we take our average folks and make them better, how do we give them the right tools, how do we simplify life so they can look into the customers’ eye and say thank you so much for this business and look at this special thing we did for you?”

A more recent concern in human resource management is the threat of increased unionization in the hotel labor market. As an executive from corporation D projected: “Unions would like to have more presence in the hospitality industry and that would have huge implications for our profitability.” Indeed, a shift towards increased unionization of the labor force would impact many aspects of human resource management.

Improving technological advances are aiding in human resource management. One corporation indicated it has experienced tremendous benefits in putting their manuals online. Another corporation is exploring VOIP to outsource some labor to more accessible labor pools. However, they were quick to point out that most of the hotel corporations’ value systems will not encourage the off-shoring trend in labor that has been pervasive in other industries. Yet as the world flattens will this remain true?

The discussion of human resources and corporate strategy would not be complete without the inclusion of the value of corporate culture. For one of the corporations interviewed, corporate culture was perhaps the greatest perceived difference between their own corporation’s strategies and those of their competitors. Each executive in this corporation interwove a discussion of the strength of the corporate culture with their answers. This pervasive corporate culture for corporation D has benefited the company in decreased turnover of management and hourly employees, and increased synergy and productivity directly attributed to the lower levels of turnover. The executives for this corporation felt the culture was so pervasive that it encompassed customer loyalty as well. They expressed the belief that guests remain loyal to their brand as a result of the company culture.

Strategic research shows that the advantage provided to a corporation through exceptional corporate culture provides a more sustainable competitive advantage than tangible advantages of technology or product (Harrison & Enz, 2005). One executive from corporation D confided: “You can replicate the amenities and the distribution, but the culture that we have here you cannot replicate and that gives me a level of comfort.”

SIGNIFICANCE OF THE FINDINGS

The changes in corporate strategy discussed in this paper will have dramatic impact on the lodging industry. For example the changing owner operator model pervades strategic changes in technology and human resources. Convincing a franchise owner to purchase new technology for the good of the brand versus their own short term profit becomes an additional hurdle in technology strategy implementation (Marriott 2005; Richter, 2005). Likewise the move towards an owner/operator franchise or management contract model has affected human resource practices. Front line employees greeting and serving the guest are now more likely to be employees of the individual owner and not the lodging corporation. This brings new challenges in getting an employee who is no longer an employee of the brand, but an employee of the owner/operator to buy into the brand concept.

Similarly the changes in ownership structure are changing the strategic environment between corporations. One executive indicated that it is not unusual to have an owner or franchisee own or franchise brands from different corporations. He projected that these owners "get all of the corporate strategies and consolidate them, and not only can they play you against each other, but they can mitigate your differentiation by telling Marriott what Hilton is going to do in ten years." This added transparency greatly reduces a company's ability to leverage resources others cannot imitate.

Changes in brand architecture have resulted in most corporations having product at every price point. This proliferation of brands has caused confusion to the consumer in differentiating products between and within lodging corporations (Olsen, et al. 1998). The need for differentiation within the brands and the lodging corporation is essential.

Consolidation brings about concerns to commoditization and to service. One executive described his concerns aptly "When you have fifteen million customers in the door every year how do you have the same level of personalization?"

International expansion is resulting in the globalization of the brand, the product and the lodging corporation. Changes in corporate structure to encompass this strategic shift have just begun (Harrison & Enz, 2005). As more lodging product is developed or acquired internationally, there will be a need for more corporate presence in these locations. Furthermore, the concept of the "American Hotel" product will change incorporating elements of the many cultures. Menu offerings, design elements, operational processes will all be affected as the corporations become more global. The increasingly global market has made competitive strategies even more important (Harrison & Enz, 2005).

Changes in technology and its accompanying strategies will continue to drive many changes in the lodging industry from guest room amenities to processes for accommodating and serving guests. Technology will affect human resources, capital finance models, product distribution methods, marketing, and day to day management practices at a minimum (Harrison

& Enz, 2005). One executive told us we could not begin to perceive or imagine the technology environment of the future, and indeed this is true. Improvements in technology will continue to improve the distribution, operations and profitability of a global lodging market.

FUTURE RESEARCH

The constraints of this study only allowed for data collection from approximately half of the major multinational lodging corporations. Including more companies in all scopes of the industry would further validate the data and may provide additional findings. Because corporate history and composition of lodging corporations differ, the remaining companies or emerging companies may not reflect the findings or trends discussed.

While grounded theory requires extra measures to ensure validity and reliability, its basis uses qualitative methodology. Despite these added checks and balances, the process of coding in qualitative inquiry cannot help but to be influenced through researcher bias.

Even so, several additional studies are suggested by the research. These include further study on the changing ownership model of hotels from ownership to franchise; the emergence of timeshare as a strategic business unit in hotel corporations; expansion into foreign markets, especially China and India; untapped, underserved and minority markets; and e-distribution.

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Table 1

Titles and Positions of Executives Interviewed

Corporati	**Title or Position**
A	Chairman and CEO Hotel Group
	Executive Vice President and Chief Marketing
	Senior Vice President Travel Content
	Senior Vice President & Hospitality Division
	Chairman and CEO Vacation Interval Exchange
	Executive Vice President and Chief Innovation
B	Senior Vice President Strategy and Systems
	Executive Vice President Operations
	Executive Vice President Operations, F&B, Rooms,
	Vice President, Human Resources
	Assistant Vice President, Human Resources
C	Executive Vice President, Brand Performance and
	Senior Vice President Brand Management and
	Senior Vice President Brand Management, Mid
	Senior Vice President Information Technology
	Senior Vice President and Managing Director
	Vice President Front Office Operations and
D	Senior Vice President and Chief Technology
	Senior Director, Investor Relations
	Executive Vice President, North American
	Executive Vice President and General Manager
	Executive Vice President, Owner & Franchise
	Executive Vice President, Sales and Marketing