The lodge phenomenon

*The remarkable and extraordinary growth in the lodge sector has been the most significant event in the UK hotel industry in the last two decades. Here **David McCaskey** captures some of the factors driving this growth, examines the strategy of the market's leading brand and considers the future for lodges*

It started in 1985 with the opening of the Ibis at Heathrow and, in the same year, the first Little Chef Travel Lodge. By 1996 there were some 400 budget hotels with 28,500 rooms.[1] That this growth rate is truly exponential (becoming more and more rapid) may be evidenced from the latest forecast from Merrill Lynch published in those excellent HVS weekly Hospitality Enews updates.[2]

> *Merrill Lynch expects the number of budget hotel rooms to rise from 40,000 in 1999 to 80,000 in 2003 accounting for 20% of the UK hotel market.*

Fig 1
The players and their relative sizes and brands at the end of 1999

Budget Hotel Brand	Number of Hotels	Number of Rooms
Travel Inn**	231	12,292
Travel Lodge	192	9,600
Express by Holiday Inn	69	6,216
Premier Inns and Lodges*	65	2,836
Lodge Inns*	27	1,644
Ibis	23	2,677
Comfort Inn	30	1,897
Campanile	15	1,113
Formula 1	8	618
Days Inn	9	615
Road Chef **	13	542
Total	***682***	***40,050***

extracted from Deloitte & Touche's *UK Budget Hotel Survey 2000* [3]

Since the list in Figure 1 was published, the following changes help to emphasise the dynamic nature of the sector:

* Scottish & Newcastle, who operated Lodge Inns, acquired Premier Inns and Lodges from Greenalls, they all now operate under the Premier Lodge brand. As of mid-August 2000, they had some 102 lodges with 5,200 rooms. With their current sites and planning permissions they will have over 9,000 rooms by mid-August 2001.

** Road Chef will continue to be a Motorway Service Area brand, recently they have contracted out their marketing and reservations to Travel Inn.

Expansion plans: the race is well and truly on!

The market leader, Whitbread Hotel Company's Travel Inn, has been opening a new lodge every ten days and plans to have at least 20,000 rooms by 2003. Its recent and widely reported 'truce' with Punch Taverns, its rival, and the winning bidder for the Allied Domecq estate, has resulted in a deal whereby an £80m joint venture will see the development of at least 50 Travel Inns alongside Punch Taverns. Existing Wayfarer Lodges will be converted to Travel Inns. Whitbread will manage the hotels under the new joint-venture company, Punch Travel Inns.

To date all Travel Inn growth has originated from

New UK market entrants 1
Two views of the interior of one of the first Howard Johnson properties – in West Bromwich: the café, (above) **; reception** (right)**. A second HoJo is open in Greenock, and the third is due to open this month in Wembley.**
(Howard Johnson)

internal franchisees e.g. Brewer's Fayre, Beefeater, TGI Fridays. They have always recognised the synergetic relationship between accommodation, food and drink where site yields are much boosted by the presence of all three. This internal arrangement has curtailed many of the problems which franchisors can experience as any deviation from brand standards can be more readily and rapidly addressed.

The growth opportunity offered in the present UK market has drawn in players from more mature markets like France where lodges represent 20% of hotel stock and from the saturated US market where penetration is almost 25% of hotels. The entry strategies of these companies and the myriad and complex nature of 'ownership' was recorded in *The Times* 1.3.99.[4]

HOJO hotels enter the UK

Premier Hotels, the budget brand operator, is bringing Howard Johnson (HOJO) and Days Inn brands to the UK in a £300 million pound development project. Building has begun on two sites as part of a franchise agreement signed last year with Cedant (née Hospitality Franchise Systems, HFS, the world's largest hotel company). This troubled US consumer services group owns the Days Inn, Ramada and Super 8 budget hotel brands. Although Cedant's hotel brands are little known internationally, they dominate the US economy lodgings. Days Inn claim to be the world's biggest hotel brand with more than 2,000 hotels, and Howard Johnson has 650, although only 150 are outside the US.

We've seen a massive explosion in budget airlines. In a sense, we are the equivalent on the ground, people are wanting to go away more

Premier Hotels is already a big Holiday Inn Express franchisee, with seven units open and six under construction. Under its deal with Cedant, it plans to open 60, a mix of Howard Johnsons and Days Inns, over the next three years, Premier aims to open more than a thousand rooms in London alone. Its first hotel, the £9 million 162 room Days Inn, near the Imperial War Museum, opened in November 1999. In West Bromwich, work is well underway on the £8 million, 140 roomed Howard Johnson to open October 2000.

Oriel Leisure, an offshoot of English and Overseas Properties and a franchisee of Bass-owned Holiday Inn Express, intends to develop a minimum of 20 Express hotels over the next three years. Accor is constantly seeking sites for its Formule 1 and Ibis brands, as too is Campanile. Choice Hotels plan to build 15 of their Sleep Inn brand, J.D. Wetherspoon have developed three Wether Lodges and First Stop Hotels plan more of its City Inns.

Tuning the brand
This established brand is now renamed Express by Holiday Inn (above)**, while Scottish and Newcastle have relaunched Permier Lodge, which they acquired from Greenalls, and applied it to all their lodge properties.** (right) *(S&N Hotels)*

What is driving this expansion?

In the *Observer* 8.11.98 Chris Cooper MD of Forte/Granada's Travel Lodge was quoted as saying

> *Social trends are changing. We've seen a massive explosion in budget airlines. In a sense, we are the equivalent on the ground, people are wanting to go away more.*

A research report by the Henley Centre 'Leisure in the New Millennium'[5] presented to the Joint Hospitality Industry Congress (JHIC), showed that growth in real disposable income was fuelling demand. This discretionary spending has grown at 2.6% over the last five years and is projected to accelerate its growth rate to

McDonalds lawyers had to dissuade one group from branding its hotel product McSleep

3.7% compound annual growth rate over the next five years. Leisure expenditure is moving from being regarded as a luxury towards becoming an essential, almost a basic human right. The impact of people regarding leisure as part of their everyday running costs should be to reduce the cyclicality of the industry. Rather than the historical view of the industry as suffering from an exaggerated cycle, the reality is that it has grown at the same pace as GDP since 1993.

There is much evidence to show that each and every night UK budget hotels enfranchise more and more of the population into hotel usage. It must be a welcome change that from the 1960s when less than 5% of the UK population stayed in UK hotels that in this first decade of the twenty-first century, over 50% of our population are now active hotel users. In much the same way, McDonalds was a major catalyst in accelerating the growth of the UK eating-out market, as they removed many of the barriers or inhibitions to restaurant use. Many of the key success factors behind McDonald's, Quality, Service, Cleanliness and Value (QSCV) are applicable to budget hotels. McDonalds lawyers had to dissuade one group from branding its hotel product McSleep.

Estimates show that, with 80,000 rooms and c80% occupancy, budget hotels will absorb over 20,000,000 pa room-nights i.e. more than 55% of all UK plc demand. These new lodge formats with their low cost base are a major challenge to 2- or 3-star traditional hotels which tend to have relatively high costs built into their operations As such they lack the flexibility to raise either their operation to 4-star levels or to cut costs to enable them to match lodge prices.

A nice little earner

So what is behind this investment stampede? To explain this we need to examine the economics of the lodge market. Those of you who can remember the grant-driven hotel building boom of the early 70s may recall the Hubbard formula. This rule of thumb simply stated that every £1000 of investment cost per room represented £1 net on the room rate.

For example, the extra 30–40 room extension to the Savoy Hotel, for which there was planning permission, would cost between £300,000 and £400,000 per room therefore they would need to sell @ £300 or £400 plus VAT per night. A typical Post House type format would cost £80,000 to £100,000 to build with the net rates required at £80 to £100 and in both these cases the rule is appropriate. With lodges however they currently achieve net room rates well in excess of that required to meet the £1000 rule and as such represent a very good investment.

The figures from Deloitte & Touche's 'UK Budget Hotel Survey 2000' show the following.

- ❑ A roadside location costs £18,000 to £26,000: current average net rate is c.£35
- ❑ City centre locations cost £26,000 to £38,555: current average net rate is c.£40
- ❑ New Build Central London locations cost £60,000, outer London £40,000 these hotels achieve £60 to £80 net room rate.
- ❑ Office conversions in city centres are particularly attractive as they can be brought in at between £17,000 and £28,000 per room.

Whatever financial criteria may be used to measure profitability and/or payback periods for lodge investments

- ❑ Return on Capital Employed (ROCE)
- ❑ Internal Rate of Return (IRR)
- ❑ Discounted Cash Flow (DCF)

lodges can truly be said to be, at present and in the vernacular 'nice little earners'.

Of course, turned away business is routinely measured at each unit and a regular calculation is made to determine if a 20, 30 or even larger bedroom extension is feasible, adding even more icing to the cake.

Similar explosive growth in lodge provision in the USA between the mid 60s and the late 70s left many of their unfocused mid-market hotels in disarray. In the air, deregulation spawned the growth of low cost airlines which helped to bring about the rapid demise of Pan Am and TWA. This process is now in full spate in the UK and Europe and is having a radical dampening effect on prices and subsequent yields in both industries.

Of course the major issues for UK budget operators are:

- ❑ How long before this market growth slows?
- ❑ When will supply, as it inevitably does, overtake demand?

The Travel Inn logo, for which the strap-line runs: 'The UK's favourite place to stay' *(Whitbread Hotel Co)*

- ❑ And, how can brands be differentiated to gain and retain market share?

In the US, the roadsides and suburbia are littered with redundant and marginal lodge properties built during their boom years whilst some companies, like Red Roof Inns and La Quinta, still record ongoing success each year .

The battle for market share

The Lodge market has all the characteristics of the growth phase in the product/service life cycle, making it an ideal case study. The marketing activities usually associated with this phase, strategies which promote strong brand loyalty; which strengthen market share; which develop a competitive position and emphasise their differentiated benefits, are all clearly evident.

The marketing practices of the Whitbread Hotel Company's Travel Inn brand serve to illustrate this well. It is proposed here that the Travel Inn brand has been so engineered to reduce the risk of a negative customer experience and has created enduring value. This meets all the criteria for classification as a leadership brand, ranked alongside others such as Tesco, Disney, Volvo and Coca-Cola. That is to say they live a form of total brand management which other organisations do not. They have a purpose that informs everything that they do, and everyone knows what they can optimally do for the brand.

To substantiate this claim, Travel Inn strategies have been analysed using the seven characteristics of leadership brands model.[6] These are common factors to be found in all leadership brands and are the means by which they deliver their promise.

Travel Inn is the outstanding market leader in the burgeoning lodge sector; achieving 86% room occupancy, across its 250 outlets. If you consider that at Travel Inn it takes around three years to gain close to maximum penetration in its local area (thus diluting overall average group occupancy). Hotel Company's MD Alan Parker's statement that 'most Travel Inns constantly perform at mid-90% occupancy' is both bold and true.[7]

In 1999 Travel Inn also recorded an astounding 78 per cent repeat occupancy. What better customer endorsement could be given?

What they do

1 Rather than follow rules and markets, they create them

It is custom and practice in the hotel industry to develop a sophisticated range of discounts. These may be based on volume of business, booking period or other factors. These are aimed at maintaining and generating demand to maximise occupancy. Travel Inn offers no such discounts nor do they pay commissions to travel agents. Both of these are radical departures from the industry norm yet they still out-perform the occupancy norms and its average achieved room rate (AARR) is its rack rate.

2 They effectively create a meaning that is more than just a function of the product or service.

The most effective meanings are based on deeply felt human needs. Director of Marketing, Guy Parson's research showed that Travel Inn was 'more approachable than Holiday Inn Express and Travel Lodge'.[8] It, also, confirmed Travel Inn to be the 'first choice in affordable accommodation'. Very positive guest satisfaction surveys and mystery shopping grades were being achieved across the brand and were constantly monitored.

How they do it

3 Leadership brands embody meaning in all that they do

The Travel Inn approach to pricing is entirely ethical. They take what is known as a pluralist line, i.e. a belief that the performance of a company should be viewed in a much more pluralistic way than just through the bottom line. Their policy is a model of good practice. It produces prices which are: mainstream, competitive, universal, consistent and fair, as such, are easily communicated

forecasts set this at a penetration somewhere between 20% and 25% of the UK hotel market. There will be significant presence both at the roadside, in suburbia, in inner cities

It is worth noting the furore of activity under the banner of 'rip-off Britain' which, to date, has successfully targeted unfair pricing in retail banking, supermarketing and motor car distribution. There are still too many questionable practices in our industry. These traditions include, inflated rack rates; bait and switch advertising promotions; single room supplements and 'over-riding commissions'—kick-backs paid to agents/intermediaries and their staff. Given the current consumer-rights driven agenda these practices will inevitably be exposed.

4 They are consistent and eloquent in every aspect of their communication ensuring understanding

The recent, innovative, TV campaign fully meets these criteria and follow-up research confirmed that the objectives set for the campaign were exceeded. Shown in April 2000, the ensuing results demonstrated that :-

- ❑ Spontaneous awareness had risen from 12% in April 1999 to 26% in May 2000
- ❑ Prompted awareness had risen from 67% in April 1999 to 82% in May 2000
- ❑ New logo recognition rose from 17% in April 1999 to 51% in May 2000
- ❑ Over the campaign period, there was a 16.5% increase in CRS calls.

Over the year there had been a 99% increase in e-mail requests and a 900% increase in Web Site visitors. The site should take interactive bookings shortly.

5 They are dynamic, constantly changing to meet new needs and remain relevant

The 1998 brand re-launch, clearly redefining the brand proposition, may be found in the speech by Guy Parsons, to the *Marketing Week* 'Marketing Hotels '99' conference, where he also showed that there was a continuous dialogue between the brand and its users.[9]

Their societal role

6 Leadership brands have social responsibilities, they hold beliefs, attitudes and behaviours which earn the respect of those outside.

This was clearly exemplified by David Thomas at The Joint Hospitality Industry Congress in July 2000:

> *A few years back, we were criticised by some people in the hotel business, and a fair number of city analysts, for missing the opportunity to make short term profits in Travel Inn. As you may know, we had a single national price and applied it every night of the week—not a pricing policy typical of the hotel industry….The outcome is that Travel Inn has grown to be the UK's largest branded hotel network with 250 hotels and 12,500 rooms, Occupancy is running at 86% across the brand—a record for the UK and our returns continue to rise—it's a win-win for our customers and ourselves.*[10]

<u>New UK market entrants 2</u>
Friendly Hotels is bringing the Sleep Inn limited-servivce brand to the UK and Spain with 35 properties to be constucted over the next five years. The launch emphasises the range of three-star features – king-size beds, air conditioning and 24-hour staffed receptions. A US property is illustrated (right)
(Friendly Hotels)

7 Their leadership is earned not given
Leadership brands permeate the whole organisation; they are not just its label. They provide a living template of how to act, what to do for the best and how to move into the future. One has come to expect innovative and mould breaking strategies to be developed by Whitbread many of the rest are followers. Whitbread is well spoken of by hotel users in general and is well respected in the industry.

The future for lodges

A quote adapted from Robert C. Hazard (President Choice Hotels) will serve to set the scene [11]

> *the period 2000–2010 will be the most competitive in the history of the UK Lodging industry…every lodge must become more market driven, improving its product to create a unique, sustainable competitive advantage and a perception of greater value amongst its guests.*

In his vigorous reassertion of how strategic advantage may be gained through differentiation, Michael Porter stated [12]

> *A company can only outperform rivals if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at lower cost or do both.*

Through this process of differentiation a Porter, affirms that,

> *the arithmetic of superior profitability then follows: delivering greater value allows a company to charge higher average unit prices, greater efficiency results in lower average unit costs,*

thus we achieve a virtuous circle.

In this decade the rapid growth phase for lodges will slow as the market reaches maturity and becomes saturated. Most forecasts set this at a penetration somewhere between 20% and 25% of the UK hotel market. There will be significant presence both at the roadside, in suburbia, in inner cities and in London. The market will also be more clearly defined in terms of price/ quality positioning clusters, from super-economy (back-packers) to upper market economy.

The majority will be middle-market players, at

additions, often referred to as facility creep, need to be thoroughly researched in terms of real customer requirements, as opposed to simple copy-cat extras

From	To / As Well
Hotels and locations as greatest assets	Customers as greatest assets
‘One-to-many’ mass marketing	‘One-to-one’ mass customisation
Transactions and traffic flows	Customer-lifetime value
Offering a product-service range	Offering solutions and an experience
Limited channel access	Multi-channel access, global distribution
A monolithic customer offer	Multiple-relationship options
Data on what is bought	Knowledge of what is bought by whom and why
Marketing as an ‘add-on’ department	Marketing as a core competence
No one in the company (below the CEO) who owns the customer	Customer-centric forms of organisation
Bench-marking	Path-breaking
Customer-loyalty schemes	Customer loyalty as the creed of the business

Table 2: Evolution towards a customer-centric organisation: the transitions

present this cluster comprises Travel Inn, Holiday Inn Express, Travel Lodge and Premier Lodge. They will, by then, have achieved most of their planned critical mass and network location ambitions and will have resolved such current issues as the provision of telephones in bedrooms, the addition of conference/meeting rooms etc. These additions, often referred to as *facility creep,* need to be thoroughly researched in terms of real customer requirements, as opposed to simple copy-cat extras, as they are all added cost items.

It is entirely useful to recognise that a similar situation existed in the UK food retailing sector as it moved towards maturity and saturation on entering the ‘90s. We have all witnessed the unremitting battle for market share and observe that the emergent market leader, Tesco, developed policies which gave it both differentiation and produced for them sustainable competitive advantage. Such path breaking innovations included the Tesco Clubcard where it is seen as having created a gap which gives them ten years of upside opportunity. The Clubcard is technically and organisationally furthest along the customer relationship marketing (CRM) road. Their unconditional guarantee, so well communicated by Prunella Scales in the television advertisement for ‘the non - smiling fish, I don’t like this fish it doesn’t smile! Fine Madame, what would you like, a replacement or a refund?’ Since its introduction, the national press have been regularly testing this promise of replacement or refund without question. They have tried all sorts of product returns to no avail. At every level and every outlet, Tesco staff are empowered to respond to any such request by maintaining the promise made.

A consumer-rights-driven agenda will tax much existing ‘custom and practice’ in most industry sectors

An analysis of the food retailing environment, 1990–2000, would have shown:

1 There was an intensification of competition

Over the decade, supply growth started to outstrip demand growth. Increasingly the stronger players had to fight each other rather than simply take business from the weaker players. Initially in localised over-supply skirmishes, this became today’s typical all out nation-wide warfare. A prediction for the Lodge market by 2010. In the Deloitte & Touche 2000 Survey, Shane Harris Vice President of Holiday Inn Express stated

> *The budget sector is over supplied with non-branded, poor quality, inconsistent hotels. These will be overtaken by the branded budgets which are currently undersupplied.*

2 There was a long-term erosion of mass marketing

It was gradually replaced by mass customisation, which in turn has converted into customer relationship marketing. This may be exemplified via the Tesco approach where they are able to recognise the diverse and ever-changing needs of their 8 million cardholders. To achieve this, this card-holding group is currently cut into some 100,000 subgroups, using their purchasing behaviour as determinants. More sophisticated data analysis will serve to bring them even closer and closer to the needs of their individual customer.

3 Radical changes are occurring in consumer behaviour

With the emergence of the prosumer—an increasingly well informed customer who has a wide range of choice which is exercised in an more discerning and confident manner as well as a consumer society in which rights, values and expectations must be met.

this sets the agenda for the most competitive decade in the history of the UK lodging industry

Of course, the hospitality industry cannot be immune to changes which are happening in other areas of commerce and to which its customers are exposed. A consumer-rights-driven agenda will tax much existing 'custom and practice' in most industry sectors.

4 Underlying dissatisfaction with retail-process issues e.g. queuing, stock outs

For hotel, airlines and many other in the service industries these would include: reservations, check in, check out, etc., often found to be time-consuming, repetitive, unnecessarily complex and tedious. There is strong consumer demand for process improvement.

During this decade some of the leading 'institutions', notably in retailing Sainsburys and Marks & Spencer, fell into steady decline becoming no-growth companies with subsequent loss of profitability and share price. For the last five years they have been throwing hundreds of millions of £s at their problems through massive and increasingly inept advertising campaigns, loss-making sales and unbelievable discounts. All to no, or little, avail. Direct comparison with Tesco, which for the last three years has been voted 'Britain's most admired company' by the Institute of Management, shows that both Sainsburys and M&S have lost their way and are increasingly 'off-message'.

A report in 1996 by Coopers & Lybrand[13] identified that marketing applications were going through a period of significant change for the retail sector. They concluded that many of the traditional marketing methodologies were no longer appropriate. In Table 2 above, their main findings have been readjusted and adapted for the hotel or lodge sector.

For the author, this sets the agenda for the most competitive decade in the history of the UK lodging industry. Those companies which are flexible, innovative and adopt and implement this all embracing new approach will emerge, in the next decade, as the winners in this remarkable and fast growing sector.

In this evolution towards a customer-centric organisation the transitions will be as set out in Table 2 opposite. David Thomas's concluding statement at the Joint Hospitality Industry Congress, encapsulates the way forward.

My message is a simple one. Our customers are well informed and have plenty of choice. They shop around for good value. If we provide it, they will reward us - and in turn this enables us to reward our shareholders.

Stop press

As we close for press, more important developments are coming in:

1 With GranadaCompass expected to divest some of its hotel brands as it splits its hospitality and media businesses, it is clear that it will retain Travelodge. 'Compass shareholders were thought to have agreed to the recent merger on condition that all hotel assets be disposed of, with the exception of Travelodge' writes Philippa Bock at HVS.

2 Friendly Hotels, franchisee for Choice Hotels Europe has announced that it is bringing Sleep Inn—the US brand which emphasises competition on features—to the UK and Spain with thirty-five 60–80 bedroom new hotels to be built over five years.

3 Whitbread is to pilot the development of Travel Inns on the campuses of UK universities, by developing a 158 bedroom lodge at Nottingham Trent University. 'The aim is to…provide alternative accommodation to postgraduates attending short courses and students' parents visiting the university.… If successful, Whitbread plans to extend the project to around 50 universities across the UK.'[14]

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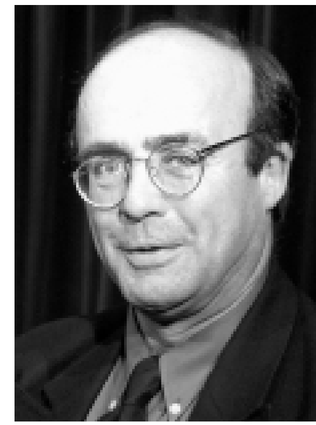
The author would like to thank Philip Stanley for his guidance and overview. Philip was Commercial Manager for Travel Inns until July 2000 when he transferred in a similar capacity to Premier Lodge.



Following hotel school at Portrush in N Ireland, David spent some twelve years with Strand Hotels (J Lyons & Co) in various management positions. After their takeover, he managed a small provincial hotel for two years before entering teaching at Colchester Institute Centre for Management Studies. He holds an MBA, has recently been confirmed as a Chartered Marketer and is in the throes of a PhD—applying soft systems theory to the structure of UK and global hotel industry.