

TRAVEL INN BY WHITBREAD

THE MARKET LEADER IN BUDGET HOTELS

AND

A 'LEADERSHIP BRAND' IN TERMS OF CUSTOMER SATISFACTION

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INTRODUCTION

In the United Kingdom, the budget hotel market is in a period of exponential growth. Against this background, the market leader, Travel Inn has so engineered its brand as to reduce the risk of negative customer experience and has created enduring value, thus meeting the criteria to be classified as a 'Leadership Brand'. Travel Inn are about to embark on yet another innovative and pathbreaking strategy which will serve to further differentiate the brand, give it first mover status and further serve to maintain its proposition as 'The UK's Favourite Place to Stay'. In turn, this will support its mission to be 'The Biggest (hotel brand in the UK) and the Best (as in customers' preferred choice in the budget hotel sector)'

THE MARKET ENVIRONMENT

The UK Budget hotel sector 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 (Observer 8.11.98). That this growth rate is truly exponential (becoming more and more rapid) may be evidenced from the latest forecast from Merrill Lynch (HVS 14.7.00)

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.

The brands and their relative sizes at the end of 1999, extracted from Deloitte & Touche's (2000)

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

Since this list 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 (Stanley 2000)

** 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 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 Domeq estate, has resulted in a deal whereby an £80 million pound 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 internal franchisees e.g. Brewer's Fayre, Beefeater, TGI Fridays who 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. As this paper was being finalised Whitbread announced its plan to introduce Travel Inns to University campuses starting with a 158 bedroomed £6 million investment at Nottingham Trent University, they had identified another 80 campuses where such developments were possible. (Whitbread press release Aug 2000)

The growth opportunity present in the UK market has drawn in players from more mature markets e.g. France, where lodges represent 20% of hotel stock and from the saturated US market where penetration is almost 25% of hotels. All existing brands expect to grow significantly over the next three years, and there are expected to be a number of new entrants.

WHAT IS DRIVING THIS EXPANSION?

In the Observer 8.11.98 Chris Cooper MD of Forte/Granada's Travel Lodge said

' 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 (2000) ' Leisure in the New Millennium' presented to the Joint Hospitality Industry Congress (JHIC), showed that growth in real disposable income was fuelling demand. This discretionary spend had been growing at 2.6% over the last five years and was projected to accelerate its growth rate to 3.7% Compound Annual Growth Rate over the next five years. Leisure expenditure was 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 cyclicity 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 from the 1960s when less than 5% of the UK population stayed in UK hotels to now, in this first

decade of the 21st 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 McD's, Quality, Service, Cleanliness and Value (QSCV), are applicable to budget hotels. McDonalds's lawyers had to dissuade one group from branding its hotel product McSleep.

Estimates show that, with 80,000 rooms and c.80% occupancy, budget hotels will absorb over 23,000,000 room nights p.a., i.e. more than 55% of all UK PLC demand.(Kleinwort Benson estimates (1996) show that in 1995 UK PLC hotels sold 31.35 million room nights) These new lodge formats with their low cost base are a major challenge to 2/3 star traditional hotels which tend to have relatively high costs built into their operations and as such, lack the flexibility to raise either their operation to 4 star levels or to cut costs to enable them to match lodge prices. McCaskey (April 2000) described Budget hotels as an increasingly voracious 'Pac Man' as they cut a swathe through the existing industry.

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 this 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.

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

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, may all be clearly evidenced.

The marketing practises of the Whitbread Hotel Company's Travel Inn brand serves 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 (adapted from Tilley (1999)). These are common factors to be found in all leadership brands and are the means by which they consistently and coherently deliver their promise.

Travel Inn is the outstanding market leader in the burgeoning budget hotel sector; achieving 86% room occupancy, across its 250 outlets. If you consider that each newly opened *Travel Inn* takes around three years to gain close to maximum penetration in its local area (thus diluting overall average group occupancy) and, a similar time period to build its repeat customer base. Hotel Company's M.D. Alan Parker's (3-9 Aug 2000) statement that '*most Travel Inns constantly perform at mid-90% occupancy*' is both bold and true.

In 1999 *Travel Inn* also recorded an astounding 78 per cent repeat occupancy. What better customer endorsement could be given? Further examination of their figures shows that 77% of customers stay twice or more during a year; 33% stay more than 21 nights a year and over 15,000 stay every single night. Against a background of shortening booking lead times *Travel Inn* regulars book further and further in advance to secure their reservations.

WHAT THEY DO

1. *They influence the behaviours of their customers. 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 etc., These are aimed at maintaining and generating demand to maximise occupancy and price. *Travel Inn* offers no such discounts nor do they pay travel agent commissions. Both of these are radical departures from the industry norm yet they still out-perform the occupancy norms for the sector. Their average achieved room rate (AARR), with no discounts, is their 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 (29.6.1999) showed that *Travel Inn* was '*more approachable than Holiday Inn Express and Travel Lodge*'. 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.

Quantitative and qualitative research showed that customers really enjoyed their rooms being 'Bright Shining and New' to continue to fulfil this, there is a mandatory total refurbishment every three years including the bed. It is of interest to note that, in a brief biography (10.09.00), David Michels stated that one of his first tasks on taking over as Chief Executive of the troubled Stakis hotel group was 'having to go on his knees to the bank to buy 4,000 new beds. By Christ that helped in their recovery.' We are after all in the sleep business, it would seem that one of the major components in making this a pleasurable experience is frequently ignored. Paul Slattery (1995) captured this investment dichotomy when his analysis showed that :-

The chasm between UK hotels PLC and unquoted companies is widening by the day as worrying large numbers of unaffiliated hotels degenerate into slums'

HOW THEY DO IT

3. *Leadership brands embody meaning in all that they do*

The Travel Inn approach to pricing is entirely ethical (McCaskey June 1999). 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. They often go beyond the minimum requirements of Corporate Governance. Their policy is a model of good practice. Given these occupancy figures and the considerable amount of turned away demand, Whitbread could easily price to maximise however, they produce prices which are :-

Mainstream, Competitive, Universal, Consistent and Fair, as such, they are easily communicated.

There are three prices only, Roadside, Metro (City Centre) and Capital (London). Much price research is carried out to ensure that prices represent customer value. It is thought that many of their competitors simply follow their lead.

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, super-marketing and motorcar 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 Central Reservation 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.

(Source Whitbread Marketing Dept Aug 2000)

Their staff handbook captures the essence of the brand which is shared with team members. Here are some abridged extracts. Our beliefs are :-

- Dare to care; show consideration, recognise customer as special, ensuring brand exceeds expectation.
- Keep it simple; do not over complicate, being informal helps communicate breaks down barriers.

- Right first time; be passionate about standards

CEO David Thomas captured this Right first time ethos with an example which is a lesson for the industry. *‘Most of all this industry requires continuous investment in our people. This is an area where I believe we most frequently shoot ourselves in the foot. Putting a raw recruit with little or no training and, no experience, in front of a customer is unforgivable. In the end this is the most expensive option to take - because we then have to find more raw recruits and more customers , because the experience demeans them both. By industry standards, Whitbread, have relatively low staff turnover.*

‘Investment in training and development, as well as competitive pay and conditions, are a critical factors in our future. These are the tools of the trade and not to provide them is like asking David Coulthard to complete in a clapped out Cortina. It’s got a built in guarantee of failure’

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

The, 1998, brand re-launch, Project Catapult, clearly redefining the brand proposition may be found in the speech by [Marketing Director] Guy Parsons (1999), to the “Marketing Week Marketing Hotels ‘99” conference, where he also showed that there was a continuous dialogue between the brand and its users.

The brand proposition.....The UK’s Favourite Place to Stay.....offered the most promising way ahead as :-

It fits with the Travel Inn mission statement

It is grounded in fact, there is evidence to support the claim

There is a good tonal fit with the ’Marketing Clinic’ research findings

It suggests the boldness and confidence of the market leader

It provides focus for internal motivation

It provides a clear focus for communication

Price is not the focus although value is still the key

From this brand strategies were informed.

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 in the speech by David Thomas (Chief Executive, Whitbread Plc) to The Joint Hospitality Industry Congress, 7th July 2000, at the Gloucester Millennium Hotel, London

“ 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.”

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 mouldbreaking strategies to be developed by Whitbread many of the rest are followers.

In the introduction it was indicated that Travel Inn was about to embark on an entirely innovative and pathbreaking strategy which would serve to further differentiate the brand, give it first mover status and maintain its proposition as 'The UK's Favourite place to Stay'.

Following over two years of research and development they are currently piloting a *satisfaction guaranteed* scheme with a view to a company wide launch in early 2001. Naturally, there is a fair amount of secrecy and confidentiality surrounding this radical strategy. The author was permitted to divulge the following.

To set the scene, a two sided leaflet is handed out to each arriving guest at the five participating hotels, this details the guarantee

**SATISFACTION
GUARANTEED**

We guarantee good
quality rooms, friendly service and
comfortable surroundings -
everything you want for a good
nights sleep.

If you're not completely satisfied,
we don't expect you to pay

Travel Inn

Everything you want for a good night's sleep

**SATISFACTION
GUARANTEED**

Welcome to Travel Inn
We guarantee you everything you want
for a good night's sleep

Our aim is to provide you with
good quality accommodation and
friendly service. We'd you to tell us
when we get it wrong - if we can't put
it right, we don't expect you to pay.

This guarantee covers your night's
stay and your Travel Inn breakfast.

We'll
be able to help you day or night, so
please contact any team member
should you have a problem.

This guarantee is currently being
implemented in five Travel Inns
Coventry, Derby (East) Euston,
Nottingham (West) and Norwich.

In interview, Ruth Hutchison, Business Quality Manager for Travel Inn and very much the *champion* for the 100% guarantee scheme said ' This is about the long term resolution of our

standards. In setting this super ordinate goal we have succeeded in energising and focusing the whole company towards one vision.

It is not about refunds it is about a promise to deliver total satisfaction. This has been a real hearts and minds operation to be shared and won over at every level'.

Some of you may be familiar with a similar scheme introduced in the US in Hampton Inns. Their scheme *champion* was Christopher Hart and it is he who helping to guide the Travel Inn implementation. Later research will analyse the results of these pilots and the full launch of the scheme. The author observed receptionists at the Euston Capital TI check in customers and saw the pride with which they introduce the 100% guarantee leaflet. Should a customer wish to invoke the guarantee, all staff are empowered to do so unequivocally. All that is required is that the nature of the complaint is registered both at the hotel and head office to help build out the problem and to aid the learning of all.

The application of the Hampton Inn scheme and Chris Hart's treatise on 'The Power of Unconditional Guarantees' may be found in Bateson (1992) Later research will compare and contrast the finding at Travel Inn to those in the US.

Extracted and abridged are some of the issues Chris Hart identified for developing guarantees, against which the Travel Inn data disclosed so far may be considered.

- Service guarantees can help companies institutionalise good performance. Committing to provide error free service can help a company provide it.
- A strong service guarantee enables managers to control organisations setting the goals and providing the necessary data to improve performance.
- A guarantee should be written in concise language that pinpoints the promise.
- A service guarantee loses power in direct proportion to the number of conditions it contains.
- The best service guarantee promises customer satisfaction unconditionally.
- A customer who is dissatisfied should not have to go to excessive lengths to invoke a guarantee, as this lengthy process will only increase dissatisfaction.
- Similarly, a customer should not be made to feel guilty about invoking the guarantee, with payouts being quick and easy
- When writing the guarantee it should not be shrouded in conditions.
- A service guarantee which is risk free to the company will be of little value
- A service guarantee forces a company to understand the where, when and how of its failures.

Perhaps the most obvious reason for offering a strong guarantee is in its ability to boost marketing. A guarantee to fulfil their promise encourages a customer to buy as it reduces the risk element of the purchase decision. It also generates more sales to existing customers by enhancing loyalty.

However, as Ruth Hutchison would insist, this is not simply some marketing gimmick, it captures the total company ethos and will play a key role in developing and building their competitive advantage. Providing a strong guarantee is not easy, which is precisely why the competitive advantage exists. This is intended to give Travel Inn a couple of years head start and all the benefits of first mover status before the me-too and fast followers adopt similar schemes.

THE FUTURE FOR THE UK BUDGET HOTEL SECTOR

A quote adapted from Robert C. Hazard, President Choice Hotels (1994) will serve to set the scene,

'the period 2000-2010 will be the most competitive in the history of the UK Budget Hotel 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, Porter (1996) stated,

'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 who will be middle market players, at 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.

There will be an intensification of competition. Over the decade, supply growth will start to outstrip demand growth. Increasingly the stronger players will have to fight each other rather than simply take business from the weaker players as they do at present. Shane Harris, Vice President of Holiday Inn Express (1998) observed that,

'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.'

Pricewaterhouse Coopers (July 2000) identify Brands as the largest element of an organisations intangible value. They too determined the brands ability to enhance shareholder value with brand strategy as essential in developing competitive advantage. The branding philosophy has moved from product marketing to service marketing and corporate brands need to consistently reflect the competencies of the organisation..

For the author, this sets the agenda for *the most competitive decade in the history of the UK Budget Hotel industry*. Those companies who, like Whitbread Travel Inns, are flexible, innovative and implement this all embracing new customer-centric branding approach will emerge as the winners in this remarkable and fast growing sector.

David Thomas's concluding statement, in his speech to 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"

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