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Cases in Innovative Practices in Hospitality and Related Services: Set 1

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Abstract

The first ten of a total of fifty cases of hospitality innovators presents a diverse group of concepts and companies, all of which have used novel thinking to meet marketplace needs, regardless of whether those needs are newly identified or longstanding. Although most of the innovations have been made possible by relatively new technology, all of them rest on a core concept of focusing on customers' desires. Whether the innovations were developed by extending existing concepts or through discontinuous inspiration, they have been generally accepted by customers. The implications and lessons from these ten cases, Aqua by Grandstand, Brand Karma, Capella Hotels & Resorts, EnTrip, Hotels.com Visualiser, Luggage Club, Royal Plaza on Scots, Tastings, Tune Hotels, and VisitBritain.com, are valuable for all segments of the hospitality industry.

Keywords

hospitality, case studies, innovations, Aqua by Grandstand, Brand Karma, Capella Hotels & Resorts, EnTrip, Hotels.com Visualiser, Luggage Club, Royal Plaza on Scots, Tastings, Tune Hotels, VisitBritain.com

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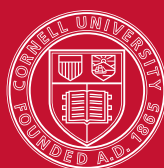
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Royal Plaza on Scotts, Tastings, Tune Hotels, and VisitBritain.com

Cornell Hospitality Report

Vol. 9, No. 17, November 2009

by Judy A. Siguaw, D.B.A., Cathy A. Enz, Ph.D., Sheryl E. Kimes, Ph.D., Rohit Verma, Ph.D., and Kate Walsh, Ph.D.



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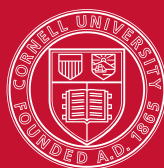
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Cases in Innovative Practices in Hospitality and Related Services

Set 1: Aqua by Grandstand, Brand Karma, Capella Hotels & Resorts, EnTrip, Hotels.com Visualiser, Luggage Club, Royal Plaza on Scotts, Tastings, Tune Hotels, and VisitBritain.com

by Judy A. Siguaw, Cathy A.ENZ, Sheryl E. Kimes, Rohit Verma, and Kate Walsh

EXECUTIVE SUMMARY

The first ten of a total of fifty cases of hospitality innovators presents a diverse group of concepts and companies, all of which have used novel thinking to meet marketplace needs, regardless of whether those needs are newly identified or longstanding. Although most of the innovations have been made possible by relatively new technology, all of them rest on a core concept of focusing on customers' desires. Whether the innovations were developed by extending existing concepts or through discontinuous inspiration, they have been generally accepted by customers. The implications and lessons from these ten cases, Aqua by Grandstand, Brand Karma, Capella Hotels & Resorts, EnTrip, Hotels.com Visualiser, Luggage Club, Royal Plaza on Scotts, Tastings, Tune Hotels, and VisitBritain.com, are valuable for all segments of the hospitality industry.

ABOUT THE PRINCIPAL AUTHOR



The principal author of this set of innovation cases, **Judy A. Siguaw**, D.B.A., was founding dean of the Cornell Nanyang Institute of Hospitality Management. Among her more than 50 journal articles are those appearing in the *Journal of Marketing Research*, *Journal of Marketing*, *Journal of International Business Studies*, *Journal of Strategic Marketing*, *Industrial Management*, *Journal of Business Ethics*, *Journal of Travel Research*, and the *Cornell Hospitality Quarterly*. She is co-author of *American Lodging Excellence: The Key To Best Practices in The U.S. Lodging Industry* and *Exploring Best Practices in the Hospitality Industry in Asia*. She is also co-author of a book on LISREL (linear structural relationships), and she is a contributor to four other textbooks. She is the recipient of a prestigious Marketing Science Institute research award, a Chartered Institute of Marketing award, a Jane Fenyo Award from the Academy of Marketing Science, a CIBER travel award from Duke University, a grant from American Express and the American Hotel Foundation, and the recipient of nine university research grants. Her research interests include personal selling, sales management,

channels of distribution, and marketing strategy.

She gratefully acknowledges the contributions of her co-authors, as listed in the accompanying cases.

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Cases in Innovative Practices in Hospitality and Related Services

Set 1: Aqua by Grandstand, Brand Karma, Capella Hotels & Resorts, EnTrip, Hotels.com Visualiser, Luggage Club, Royal Plaza on Scotts, Tastings, Tune Hotels, and VisitBritain.com

by Judy A. Siguaw, Cathy A.ENZ, Sheryl E. Kimes, Rohit Verma,
and Kate Walsh

To understand and identify innovative practices across the hospitality industry, we began a search for examples of innovations that demonstrate enhanced organizational performance. In the cases to follow, we will describe innovations developed by fifty organizations, beginning with the ten companies featured in this set of hospitality innovators.

Almost ten years ago, a team of researchers conducted a comprehensive study of the U.S. lodging industry's best practices.¹ The Lodging Excellence Best Practices study was supported by the American Hotel and Lodging Association, American Express, and the Center for Hospitality Research at Cornell. That study was the basis of a compilation of the most effective practices and strategies used at the time by the lodging industry's best operators. The findings from the study were presented as a series of publications that spanned several issues of the *Cornell Quarterly*. Those articles presented best practice cases in the context of ideas, activities, and processes. In this project we have followed the methodology of the previous study, but in contrast to a search for best practices, we identify and report on companies that use innovative practices, with a focus on the lessons those innovations offer to the rest of the hospitality industry.

¹ Laurette Dubé, Cathy A.ENZ, Leo M. Renaghan, and Judy A. Siguaw, *American Lodging Excellence: The Key To Best Practices in the U.S. Lodging Industry* (New York: American Express and American Hotel Foundation, 1999). Articles about the best practices champions are available from the Center for Hospitality Research, at www.hotelschool.cornell.edu/research/chr/pubs/best/.

The Nature of Innovation

An innovation is often defined as a new service, product, process, or idea.² As distinct from invention, innovation includes reapplying or adapting existing ideas in a novel way. The early development of innovation theory by Schumpeter conceived of innovation as a source of value creation in which novel combinations of resources produced new products, production methods, markets, or supply sources.³ In this study we relied on the following definition: An innovator is a person or organization that has developed a new or distinctive practice or has devised a novel application of an existing practice, such that it has proven to be highly effective and profitable. Thus, the firms we profile are not necessarily the only example of a particular innovation, but we believe they are using the innovation in a most effective manner.

It is important to realize that innovation is integral to a firm's strategy and competitive environment. Thus, one consideration for determining what is innovative relates to the strategic choices a firm makes and the setting in which the firm operates. In the current environment, one could argue that innovation is the most important component of a firm's strategy because it provides direction for the evolution of a firm.⁴ This view is supported by a variety of studies

that have found innovative firms to be higher performers.⁵ Other researchers have found that those firms who are first to introduce new goods or services (first movers) are able to gain benefits until competitors imitate an invention.⁶ Those second movers can also be considered innovative within their competitive environment, because they are adapting an invention in an innovative manner. Hence, a key component of this study is the exploration of how an innovative idea, service, or practice has contributed over time to a firm's profitability and operating success.

Developing a new product or process is not enough to be considered innovative in and of itself. Innovation requires converting an idea into a service or product that customers want, often using a new business model. At minimum, innovation requires behavioral change, and so we have specified the process of change and the techniques for putting ideas into action.

The innovations we profile include business models, products, services, processes, and marketing channels. While we chronicle a diverse array of innovations, the focus of our featured cases is that the practices have resulted in strong improvements in profitability or, for those innovative ideas in early stages, that have the potential for yielding superior performance for the firm.

² Cathy A. Enz and James Harrison, "Innovation and Entrepreneurship in the Hospitality Industry," in *The Handbook of Hospitality Management*, ed. Roy Wood and B. Brothers (London: Sage, 2008); and J. Siguaw, P. Simpson, and C.A. Enz, "Conceptualizing Innovation Orientation," *Journal of Product Innovation Management*, 2006.

³ J. Schumpeter, *The Theory of Economic Development* (Cambridge, MA: Harvard University Press, 1934).

⁴ R. German and R. Muralidharan "The Three Phases of Value Creation," *Strategy & Business*, Vol. 22, No. 1 (2001), pp. 82-91; and G. Hamel, *Leading the Revolution* (Boston: Harvard Business School Press, 2000).

⁵ P. Roberts, "Product Innovation, Product-Market Competition, and Persistent Profitability in the U.S. Pharmaceutical Industry," *Strategic Management Journal*, Vol. 20, No. 7 (1999), pp. 655-670; C. Grimm and K. Smith, *Strategy as Action: Industry Rivalry and Coordination* (Cincinnati: Southwestern, 1999); P. Simpson, J. Siguaw, and C.A. Enz, "Innovation Outcomes," *Business Research Journal*, 2006; M. Subramaniam and N. Venkatraman "The Influence of Leveraging Tacit Overseas Knowledge for Global New Product Development Capability: An Empirical Examination," in *Dynamic Strategic Resources*, ed. M. Hitt, P. Clifford, R. Nixon, and K. Coyne (Chichester: UK: Wiley, 1999), pp. 373-401.

⁶ Grimm and Smith, *op.cit.*

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Study Methodology

To identify innovative practices, the research team conducted interviews with industry leaders, gathered nominations from an online survey on the CHR website between November 2008 and the beginning of 2009, and reviewed industry literature that reports on innovations. This stage allowed us to tap into the views of commentators, consultants, and senior level executives and decision makers. We profile fifty innovative firms, chosen from more than sixty firms that were nominated through an open-ended online survey (see Appendix A, page 31).

Next, we notified nominated firms that they had been selected for further study by the research team. These companies were invited to complete a more detailed survey of their practice and then participate in an in-depth telephone interview.

Through semi-structured interviews, we developed detailed case information using a standard case template of questions (see Appendix B, also on page 31). Innovators were asked to provide: (1) a description of the innovative practice; (2) details on execution, focusing on how the innovation was implemented; (3) the outcomes of the innovation; and (4) lessons they learned and suggestions for others trying to utilize the ideas and innovative practices.

This first set of ten case studies represent concepts developed in India, Malaysia, Singapore, the United Kingdom, and the United States. A number of these cases are underpinned by rapidly advancing technology and demonstrate how technology is altering the hospitality industry landscape. Other cases focus on the core element of customer service that is critical to the success of a hospitality organization. We hope you will enjoy the stories underlying these innovative practices or businesses.

Aqua by Grandstand: Mobile by Nature

by Judy A. Siguaw and Nigel Goodwin

Description

Aqua by Grandstand is a mobile, three-story, open-air club-lounge that was launched in Singapore in September 2008. The entire structure can be folded up, transported, and reopened at a new location, enabling Aqua to move from one area of the city to another in response to market trends.

Despite its mobility, Aqua is a safe and durable structure and its materials can withstand sun and water exposure. As managing director Gerhard Lanyi says, "It could last forever if it's maintained properly. It's indestructible." Although the standalone structure appears to be made from standard shipping containers, its components are purpose-built. Painted white, accented with portholes and shiny brass rails, surrounded by lifelines and flotation devices, and shaded by

an enormous white sail, Aqua has the ambience of a stylish yacht. Covering less than 60 square meters, Aqua can host up to 500 guests at a time, including 100 on its second deck, although a total of 300 guests is the ideal capacity. (A third deck is reserved for DJs, musicians, and sound equipment.)

The Aqua structure can be set up in as little as twenty-four hours, with an additional twenty-four hours for any landscaping or improvements to the new location. Lanyi describes this mobility as Aqua's competitive advantage. "We don't have to worry about trends anymore," Lanyi declares. "We don't have to create trends or draw crowds, either. We just follow them. If the trend changes, we can move to where the party's at."

Aqua targets sophisticated, middle- and upper-income consumers, particularly executives or members of Singapore's sizable expatriate community, who are constantly looking for something new and are interested in finding a hot scene. Lanyi believes he can sustain their interest by changing Aqua's surroundings and giving people something to talk about.

"Aqua fills the gap between brick and stone structures and promotional booths," Lanyi explains. To his knowledge, no one else has ever tried this before. "When I look at Aqua," he continues, "I still think it's the coolest thing I've ever seen."

Execution

Aqua was conceived, developed, and launched by Lanyi and two friends, Markus Krill and Alexander Hascher. Lanyi, who was educated in tourism management in his native Austria and in the USA, relocated to Singapore in 2004, where he funded and produced the internationally renowned dinner theater, "The Crystal Mirror." Krill, a Brazilian-born engineer, had worked for a German multinational corporation in Singapore. Hascher, a German MBA and luxury branding specialist, had worked for Hugo Boss and Calvin Klein before relocating to Singapore to work for fashion retailer FJ Benjamin.

In 2005, Hascher established a company in Singapore to modify standard 40-foot shipping containers for use as portable stores and displays. In 2006, the company created a portable retail store for Puma. The compact, 30-square meter Venue Box generated considerable retail sales at over a dozen locations around the city, won several awards, and received global media coverage. The company created the 90-square meter Ferrari Mobile Brand Xperience (MBX) the following year as a Grand Prix Formula One showroom. The Ferrari MBX featured a "transformer" system that enabled a modified shipping container to expand to three times its original size.

In December 2007, the three friends hit upon the idea for creating a mobile lifestyle venue. Their concept responded to the way consumers' interest and loyalty shift from one

Aqua by Grandstand is a mobile, three-story, open-air club-lounge that can be folded up, transported, and reopened at a new location.

entertainment district to another. Lanyi had experienced this when he managed several restaurants in Singapore's fashionable Chijmes area and saw his customer base fade when the Clarke Quay district was redeveloped. Business owners who had invested in Chijmes venues continued to operate there, but struggled with the attenuating demand. Through Aqua, he wanted to develop a new hospitality concept that would be insulated from those risks.

The three friends established Grandstand Pte. Ltd., to develop their idea for mobile products. In addition to Aqua, Grandstand primarily produces mobile venues for large corporations. After writing a business plan in January 2008, they incorporated in March and began construction in May. In the meantime, their concept changed so rapidly that by the time construction started in May, the original business plan from January was already out of date. At the same time, they attracted some additional investors to help cover the SGD 500,000 in start-up costs.

Rather than conduct thorough market research, the partners relied on their own observation. As Lanyi reflected:

We were too busy, so we didn't have sufficient time for detailed research. It was such a pioneering concept that it would have been hard to prove it with research anyway. Our investors trusted us, and they are very savvy businesspeople, so that was all the proof we needed. It was more important to just work and get it to the market as fast as possible.

Brand Karma is an internet-based application that records consumers' comments on participating firms—and also groups those consumers into life-style personas.

Grandstand received strong support from the Singapore government, with assistance from the Singapore Tourism Board and the Ministry of Trade and Industry. Aqua's unusual concept and mobility might have made licensing difficult, but the government's support helped Grandstand obtain necessary licenses.

Rather than purchase advertising as the launch date approached, Grandstand retained a public relations company, partnered with high-profile events in September and October, and relied on media coverage and word-of-mouth. Launch events included the "100 Sexiest" party by *FHM* men's magazine, the ten-day Singapore River Festival, the two-day Formula One Extravaganza, and the ten-day Singapore Sun Festival. "We just put the bar up and let the media write about it and let people talk about it," Lanyi recalls. "In this globalized world, word spread quickly." In fact, Aqua was featured by Bloomberg news service, Springwise.com, and Trendhunter.com.

Outcomes

Although Aqua's popularity is clear, it is too early at this writing to measure specific outcomes. Lanyi states that Aqua has the potential to become the most profitable F&B operation he has ever managed. Aqua's mobility helps Grandstand negotiate reduced rental fees when it occupies a particular piece of land. At Clarke Quay, for example, the Singapore government allowed Aqua temporary use of an otherwise empty lot.

Extending the mobile venue concept, Grandstand is constructing road show venues for Nokia, and it is developing MSX (Mobile Sound Xperience) by Grandstand, the world's first mobile sound recording studio, intended to bring classical music to the streets of Europe. Grandstand also planned to launch another container-style mobile venue, Voodoo, in 2009. Lanyi believes Singapore can only sustain one Aqua-style venue, since the nightclub's novelty contributes to its popularity. Consequently, Voodoo will follow the same mobility principle, but will instead offer tapas-style finger food in addition to beverages. Designed to offer a Caribbean atmosphere with an air of mystery and touches of what Lanyi calls "black magic," Voodoo will initially be located in Singapore's up-and-coming Dempsey Road area. Grandstand has also received interest from South Africa for a mobile sports bar concept, which became available in January 2009.

Given this international interest, Grandstand is also working to expand its mobile venue concepts by franchising its concept in other countries and providing "plug-and-play" mobile venues to local operators. An initial franchise fee will just cover the SGD 400,000 construction costs, but Grandstand will charge fees for consultation and set-up, as well as an annual license fee. "F&B franchising can be tricky due to a lack of transparency, which is why we charge mostly fixed fees linked to the franchisee's annual turnover," Lanyi says. "There's less upside that way, but it's safer than charging a percentage." By October 2008, Grandstand was close to closing a number of franchise deals in Australia, France, and the United States. Selected parties are being considered as master franchisees in their countries to accelerate the roll-out.

Insights

Lanyi and his partners climbed a steep learning curve in terms of production and construction, particularly due to cultural barriers that stood between these European expatriates and Singapore's craftsmen. As outsiders, Lanyi and his partners had difficulty speeding the project along and negotiating what they thought were fair prices for the materials and labor. Furthermore, they were initially unaccustomed to the rough construction districts. As Lanyi noted, "Those areas look very different from downtown Singapore." They eventually learned how to manage the local craftsmen, established good working relationships with them, and built a trusted network. Consequently, Lanyi believes future mobile projects could be constructed much faster and cheaper.

Also, Lanyi and his partners made the mistake of trying to do all the pre-launch work themselves. Exhausted by the time of launch, they found it hard for them to "get their minds back in the game" and be creative. For future projects, they will ask for more help and put the creative "think tank" in place earlier.

If Lanyi proves to be correct, venue mobility will help Aqua sustain excitement and customer loyalty far beyond the usual lifespan for a nightclub. According to Lanyi, Aqua should sustain a loyal following that will follow Aqua from place to place, similar to the fan base for a popular DJ or musician.

Grandstand's proprietors are also aware of the challenge of adapting the concept for northern climes, given that their open-air nightclub works is perfect for warm Singapore and other countries with warm climates or at least long summers. For franchisees in the so-called temperate zone, Grandstand will offer options to adapt the venue, but it may be that franchisees will find another use for it during the cold months.

Brand Karma by Circos: Synthesizing User-generated Comments

by Judy A. Siguaw and Nigel Goodwin

Description

Brand Karma is an internet-based application that records consumers' comments on participating firms. Examining more than 250 web sites, including forums, review sites, and online communities and blogs, Brand Karma's technology compiles the reviews, comments, conversations, and opinions about a given hospitality product, brand, or company, converts the written comments into numeric data, and analyzes those data. Finally, Brand Karma packages the data and analysis in reports for managers' consumption.

Brand Karma's search algorithms accomplish a complex and time-consuming analysis that goes beyond the simple satisfaction scores featured on many review sites and specifies exactly what consumers like or dislike about a given hotel. As co-founder Mario Jobbe explained to *Hotels* magazine:⁷

There are millions of valuable customer reviews about hotels...all over the web, but it's difficult to find and make sense of them. Brand Karma makes it easy to understand the most impactful points from customer reviews, helping hospitality marketers and distribution managers to intelligently improve their businesses.

To add even more value to the review information, Brand Karma also assesses the people who have written the reviews. Brand Karma's technology uses semantic differences to analyze each reviewer's word choice and writing style, and combines that analysis with each individual's history of online reviews and other data to create a descriptive consumer profile, based on one of several demographic and

⁷ Hotelmags.com, "Circos Launches Brand-reputation Dashboard," August 25, 2008, www.hotelmags.com/article/CA6589621.html?industryid=47564, as viewed November 12, 2008.

psychographic personas, including Artsy, Hipster, No-frills, or Professionals.⁸ Brand Karma informs the hospitality executives which of its consumer personas are favorable toward their properties, unfavorable, or completely unaware. It also accounts for different expectations, preferences, and behaviors of each persona to help marketers target their offerings. For example, Professionals, who normally travel on business, may like "nice" hotels with business centers. Artsy and Hipster travelers, who are young, stylish, and sophisticated, prefer "hip" locations with access to local culture and entertainment. No-frills travelers, on the other hand, will forgo some amenities to get better pricing.

Brand Karma offers two levels of its analytical service. The standard edition, which is appropriate for individual properties, tracks one property, four competitors, and fifteen personas in a set of predefined sources. The enterprise edition, which is appropriate for hospitality companies with multiple properties, tracks an unlimited number of properties and competitors with customizable personas and sources.

Both versions make a variety of reports available. The standard edition offers the following. First, a summary report tracks satisfaction, loyalty, awareness, and frequency of reviews. Based on indexes from zero to 100, satisfaction and loyalty are combined into an overall score, and awareness and frequency are combined into a "buzz score." A reviews and opinions report separates positive and negative comments to highlight strengths and weaknesses, while a trends report benchmarks the property against industry averages. The competition report compares the property against selected competitors, and the personas report divides market segments into fans of the property, critics of the property, and those who are unaware of it.

To the above reports, the enterprise edition adds a corporate management dashboard that allows comparison of multiple properties in the same group. Enterprise users can also export the data to Microsoft Excel and CSV (comma separated value, or comma delimited) text files, auto-generate presentations for internal management reviews, and geographically filter the reviews, reviewers, and personas. Enterprise customers may also request customized reports. For example, a hotelier may want to see his four-star property compared with other four-star hotels or against all three-, four-, and five-star hotels.

Brand Karma's competition includes a number of firms that offer basic software that monitors review sites and alerts hoteliers when a given property receives a new review. Those firms generally do not provide the analyses or insights

⁸ The complete list of Brand Karma personas is as follows: adventurer, artsy, authentic, diva, healthy, hipster, no-frills, professionals, quiet, romantic, star seekers, the new thing, traded up, well cultured, and young and starting out.

offered by Brand Karma. At the high end, certain vendors provide information as a basis for consulting services. Brand Karma occupies a “sweet spot” between those extremes.

Execution

Brand Karma’s founders, Mario Jobbe, Morris Sim, and George Mitchell, worked together on a project at Microsoft that involved social media and “grassroots” marketing. User-generated content was nascent in those days, but the project foreshadowed a bigger future. “We saw that there was a lot of power in the comments that users were leaving on the web,” Jobbe recalls. “They were useful in actually moving the market.”

The three men had often talked about starting a business together. They enjoyed the travel industry and wanted to work with travel providers. Perhaps more important, they anticipated that user-generated content would develop quickly for travel-related firms and that it would be a leading indicator for other industries as well. As Sim explains:

We made a huge bet when we started the company. The bet was that consumers would write their feelings about their brand experiences. In 2005, it wasn’t really clear that people would do it. The bet paid off because now there’s way more social media than editorial media, and people are making their purchase decisions based on the comments they’re seeing online.

The three friends left Microsoft in 2005 to develop their idea and spent about six months exploring the concept. In 2006, they incorporated their own company, Circos, and began full-time development work from their base in San Mateo, California.

The founders pitched the idea to hoteliers and hospitality consultants and gathered informal feedback, but skipped serious market research because they knew that factors such as loyalty and customer satisfaction were fundamental across all product and service categories. Thus, they were certain that their solution would “tap into those universal themes.”

They demonstrated an early prototype to hoteliers and gathered feedback in September 2007. This vetting process helped the founders focus more tightly on the industry’s needs. In fact, the founders were surprised when hoteliers responded with criticism or indifference to certain prospective features. For example, the prototype included such cost- and time-intensive features as a Venn diagram that overlaid the elements of two different hotels;⁹ a radar chart showing a given hotel’s ranking on six different elements; and a feature showing what prominent reviewers or influencers said.

⁹ That is, circles showing the sets of features of each hotel that overlap where the hotels have features in common.

Though these features were impressive in theory, they left the hoteliers cold.

As Sim reflects, “We had to step back from our tech background or even our more analytical background and ask what a marketer at one of these hotels or the VP of distribution sitting at the corporate level for these hotels actually wanted to see.” They simplified the reports and replaced complicated charts with the indexes, bar charts, competitive rankings, and a visual “speedometer.”

One year later, in September 2008, Jobbe and Sim made cold calls to show their product to a dozen hotel managers in Singapore. Of the twelve hotel managers whom Jobbe and Sim called, ten met with them, and nine asked their corporate superiors for authorization to buy Brand Karma’s service. Jobbe and Sim were pleased with this initial “hit rate.” As Jobbe says, “The proof is in the product.”

The founders’ challenge now is to scale up their marketing efforts through both direct and indirect channels, because they do not have the time to contact and meet with every hotel manager. They are also working to market Brand Karma to a variety of hospitality services, including restaurants and apartments that provide lodging services.

The key is to create awareness in the market. The founders are meeting with hotel consolidators, GDS companies, tourism boards, and industry associations to give product demonstrations. They are also striking up relationships with channel partners to expand their industry presence and contact networks.

The founders were still determining the pricing structure for Brand Karma at this writing. Early subscribers were signed on at US\$2,000 per property per year, with discounts given for multiple properties. That subscription fee, which was set to keep adoption hurdles low, purchases the standard reports. The more complex, customized enterprise reports will be more expensive, but the founders are also prepared to adapt their pricing for specific customers or channel partners. Brand Karma’s creators allow a “healthy margin” for resellers, believing it is better to motivate them and scale the business up quickly.

Outcomes

In early 2008, Brand Karma was still in development. The founders had met development milestones, posted mock-ups online, and gathered feedback from potential customers. As this case was being researched in November 2008, Brand Karma’s products were on the verge of commercialization and ready for launch. The company had grown to include five employees in addition to the three founders.

The months of 2009 are crucial, as the focus will turn to revenue creation and the fulfillment of growth targets. The founders estimated that Brand Karma would break even in mid to late 2009. Development costs totaled US\$1.2 million

over the 2½-year period. The founders contributed funds themselves and raised the rest from angels—friends and family—and they are eager to turn a profit.

Circos is currently focusing on its business-to-business strategy, but is considering a business-to-consumer model as its next step. In the future, Brand Karma will interface with the broader Circos model of persona-based information searching. Consumers will be able to search for recommendations on specific travel experiences based on reviews by other people of the same persona. Rather than returning hundreds or thousands of results with only partial relevance, a Circos search will deliver a targeted set of qualified brands ranked against personal preferences. For example, rather than search for “nice” hotels, consumers will be able to find “funky” and “hip” destinations.

Insights

The founders have three strategies for taking Brand Karma to the market. First, they are focusing on the major hospitality chains for faster adoption, greater potential revenue, and good references. Second, they are developing channel partners with industry contacts and broad reach to accelerate the sales process. Finally, the company is attempting to create buzz through blogs, white papers, and public relations. Circos eventually expects hoteliers to begin to approach them, rather than the other way around, and subscribe to Brand Karma through the online portal.

Sim offers the following advice to anyone else starting a new business: “Keep your costs low, stay laser focused, and be sure that the customer whose pain you’re trying to fix is accessible to you, especially in this economy.”

The Brand Karma technology could be adapted for another business with just one month of work. “Name a [business], and if there’s user-generated content then we can do it,” Sim explains. Advertising agencies have approached Circos regarding such areas as consumer electronics, pharmaceuticals, and online gaming, but the Circos founders have resisted the temptation to diversify. With limited resources, the founders are disciplined about serving the English-speaking hospitality market. As Sim explains,

The business development for this is swallowing us up. You just have to stake out your territory, stay focused, and either get there or no. If we make it through this economy, we’re going to be a great company. A lot of our competitors will fall apart in this economy, and we could potentially fall apart, too. But if we can make it through, it means we have something valuable that people want even in spite of the economic downturn. So in better times, we’ll just do even that much better.

Sim also recommends finding an industry insider with major clout early on, because such a person can make it

Capella Hotels and Resorts has calibrated its operations to allow its guests to check in or check out at any time, day or night.

easier to break into the industry “ecosystem.” He did not realize this until he recently started attending industry trade shows, and he regrets that Circos did not find such a person earlier.

Brand Karma has been challenging for Sim, Jobbe, and Mitchell, but they are excited to see their concept being validated now. “It’s hard. You experience high highs and low lows because it’s your baby,” explains Jobbe. “But it’s been energizing and invigorating to launch the product and to get it in front of people and see the feedback. The last few months have been great, to know that we have been working on the right sort of thing.”

Capella Hotels and Resorts: 24-Hour Check-In and Check-Out Policy

by Judy Siguaw and Nigel Goodwin

Description

The Capella Hotels and Resorts chain allows its guests to check in and check out at any time, day or night. Capella has pledged to have a room ready for each new guest upon arrival, rather than asking the guest to wait until 2:00 PM or 3:00 PM, as is the industry norm. Furthermore, guests can use the room as long as they like, rather than being required to check out by 12:00 noon. In fact, guests are charged for an extra night only if they check out after midnight. The focus on quality customer service is reflected in their twenty-four

EnTrip allows users to manage online travel planning and to plan their entire trip, by connecting a spot on the map to information relating to that destination.

written service standards, one of which states: “The suggested hours of operation are guidelines, not limitations for satisfying individual guest desires and preferences.”¹⁰

The West Paces Hotel Group launched Capella in October 2005, on the belief that the customer should determine aspects of the guest experience rather than the hotel setting rigid guidelines. “The needs and desires of today’s top-tier consumer have changed,” asserted chief executive officer Horst Schulze, in a corporate release. “Capella will be focused on choice—and we will offer choices that no other hotel in the world can match.”¹¹ Thus, Schulze promised high levels of personalization and attention to detail at the Capella properties. From his former work as president of Ritz-Carlton Hotels (and other positions), Schulze is well versed in the needs and preferences of luxury travelers.¹²

Capella operates boutique luxury hotels with personalized service for an exclusive clientele. Three Capella properties were open as of October 2008, including those in Velden, Austria, and Dusseldorf, Germany, with seven more planned by 2010, in Mexico, Ireland, Singapore, the United States, and Japan. Schloss Velden, for example, is a 1603 castle located in a scenic lakeside village in the Alps.

¹⁰ Capella Hotels and Resorts, “Service Standards.”

¹¹ “A Star Is Born: Capella Hotels and Resorts,” West Paces Hotel Group LLC press release, October 6, 2005.

¹² See: William E. Kent, “Putting Up the Ritz: Using Culture to Open a Hotel,” *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 31, No. 3 (November 1990), pp. 16–24.

Execution

In late 2006, Schulze and Capella’s other leaders developed the brand’s service standards. Knowing that check-in and check-out times were areas of guest frustration, they decided to address the matter. “Normally, at other properties, if a guest arrives at 6:00 AM, the room won’t be ready until 3:00 PM,” explained Scott Rohm, senior vice president, operations. “The front desk staff will tell the customer to go away somewhere and wait, as though it’s the guest’s fault for arriving too early. We believe this is the wrong attitude for treating valued guests.”

Rohm continued, “Have you ever been in the position where you want something and you’re willing to pay for it, but a service provider just isn’t willing to give it to you because it’s not part of their standard offering? We believe those are missed opportunities and we strive to give our discerning guests more flexibility.”

Capella’s 24-hour standard affects operations for the front office, reservations, laundry, and housekeeping. Since most employees had worked at other properties before joining Capella, they needed to adjust to the company’s approach to room readiness, and some doubted their ability to fulfill it. They soon became excited about the opportunity to pioneer a new process which improved customer service. The policy is facilitated by a personal assistant who calls every guest prior to arrival to learn guests’ arrival times and anticipated activities.

Although there is no iron-clad room-availability guarantee, Capella staff members do everything in their power to give each guest a room upon arrival. The only exception might be if a guest arrives early in the morning and the hotel is full. In that case, the guest has to wait for an available room, but the staff will quickly turn around the first room that becomes available. When a speedy room turn is needed, managers, bellmen, and other staff often assist the room attendants. Managers are more than willing to strip beds and clean bathrooms. A room attendant working independently might take 45 minutes to turn a room around, but the job can be completed in approximately 20 minutes with help from two or three other employees.

To facilitate the process, Capella room attendants are authorized to release rooms themselves after cleaning, although managers make spot checks to ensure that room attendants maintain quality standards. Moreover, to avoid disturbing other guests while servicing the rooms, Capella uses small housekeeping carts that can be rolled directly into the rooms, and housekeepers close the doors as they work. Capella’s vacuum cleaners are quiet, and all rooms are soundproofed, so noise from the cleaning process should not reach other rooms.

Although housekeepers do not need special skills to implement the 24-hour policy, there must be housekeeping

coverage at all times. In place of the typical housekeeping schedule of 8:00 AM to 5:00 PM, Capella maintains an early shift, starting at 6:30 AM, and a night shift, starting at 5:00 PM. This approach does trigger some overtime wages, but the additional cost is negligible. Meanwhile, the room attendants appreciate the unusual working hours.

Outcomes

Capella does not have complete data on satisfaction or loyalty yet because many of its properties have just opened, but Rohm believed those measures are higher at Capella than they are at many of the larger hotel chains. This belief is substantiated by 12 months of guest data collected for the Velden and Dusseldorf properties that together yielded a 91-percent average overall guest satisfaction score and a 93-percent score for likelihood of recommending the property. Furthermore, in Capella's first 18 months, there were no negative comments about rooms not being available, but many positive comments about flexibility and personalized guest experiences.

Perhaps more important, this service standard influences staff at all levels and inspires them to be more customer focused. "Our staff have strong empathy for the customers and a genuine desire to make our guests happy," Rohm explained. "Employees feel empowered to provide the guests with the experience they desire, and feel good about providing outstanding service." Indeed, in an independent employee satisfaction survey in November 2008, employees rated their feeling of empowerment at 92 percent.

The service standards also inspire employees to break conventions in the pursuit of guest satisfaction. As Rohm explained:

This service standard regarding hours of operation helps illustrate to all staff members that Capella is a brand that focuses on the individual needs of each guest. It is an example so staff members in all areas of the hotel can understand our service promise. Posted check-in and check-out times have been an industry standard. If we as a brand break this "rule," then we can break other perceived rules throughout the hotel.

Insights

Capella's 24-hour check-in and check-out policy is simple in concept, but can be difficult to execute. While the 24-hour policy contributes to guest satisfaction, Capella does not consider it a unique selling point on its own. In fact, Capella does not even publicize or advertise it, but communicates it informally to guests. This service standard is just one factor in a much longer equation designed to create customer loyalty and word-of-mouth advocacy.

The service standards also fit Capella's marketing strategy for a target segment of travelers who have high expectations and are willing to pay for the best service. "Capella guests know what they want, and they want it now," said Rohm. "No one ever says 'no' to them." The 24-hour check-in and check-out policy made sense for Capella's customers, whereas it would be unnecessary, inappropriate, and costly for properties targeting less affluent and less demanding guests.

"Capella is built on providing what the customer needs, rather than just offering a general hospitality product to the market," Rohm concluded. "We let the guest engineer their own experience, rather than be limited by restrictions imposed by the industry."

Entrip: An Integrated Travel Website

by Judy A. Siguaw

Description

EnTrip is a web-based travel tool that integrates travel-related websites, including Google maps, blogs, and social networks. Consequently, EnTrip allows users to manage online travel planning and to plan their entire trip, using an intuitive map-based interface. When EnTrip users click the map at their origination and destination points, EnTrip displays services customized to that specific trip—including airlines, hotels, restaurants, rental cars, points of interest, and special events.

By making it simple to find all travel information on one website, EnTrip is directly addressing traveler purchasers' needs. Specifically, research findings by Henry Harteveltdt, vice president and principal analyst at Forrester Research, state that "43 percent of travelers believe travel websites' shopping experiences have become less useful, 15 percent feel the internet doesn't help them save money, and 11 percent of U.S. online leisure hotel guests say it's more difficult to shop for travel online now than when they started." Harteveltdt recommends that online travel companies "make online booking easier, be clear instead of confusing, reflect customer preferences, do a better job providing content, and make it easier for guests to reach us."¹³ EnTrip, as an integrated travel utility, incorporates those suggestions.

In addition, EnTrip allows users to share travel blogs, notes, videos, and pictures with friends and families within the geographical context in which they occur. That is, users can place all photographs, videos, and information "on the map" in the relevant geographic location, so that invited friends and families can readily envision the journey, receive

¹³ HotelMarketing.com, "OTAs Sending Guests into Information Comas?," December 12, 2007, www.hotelmarketing.com/index.php/content/article/071212_otas_sending_guests_into_information_comas_instead_of_helping_them/, as viewed November 19, 2008.

updates, or subscribe to the trip's RSS feed. This feature is an essential part of the EnTrip offering that addresses another critical element for online travel purchasing. Jupiter Research reports that user-generated content is "more influential on the choice of accommodation than brand, and 42 percent of online travelers who employ user-generated content consider the opinions of other travelers to be highly trusted and influential in both accommodation and destination choices."¹⁴

Execution

As classmates at Imperial College in London, Anthony Hsiao and Nick Adams shared a passion for the web and related applications, especially software as a service. They were enamored with the "power at your fingertips" that could be harnessed through the internet. When Hsiao floated the idea of partnering on an internet start-up after graduation, he and Adams initially conferred on an online video conferencing concept.

Taking an 11,000 mile road trip through the U.S. in summer 2007, though, Adams was unable to find a website capable of capturing his travel experience along the way or allowing him to share the feelings it evoked with his family and friends in the United Kingdom. While specialized travel blogging sites and communities were available, none of them met Adams' requirements of aesthetics, usability, and "coolness." As a result, Adams created "Trip," a simple map-based blog, which evolved into EnTrip.

In December 2007, Adams and Hsiao attended "Start-up Weekend," an event for budding entrepreneurs. At this event, Adams and Hsiao showed Trip to Adil Mohammed, a software developer who himself desired involvement in an internet start-up. The video conferencing idea was dropped in favor of EnTrip.

In January 2008, already well aware that they could not pursue their dream in London because of the high cost of living, Adams and Hsiao moved to Pune, India, where living expenses, labor, and development costs were low and where they could engage top university students. Mohammed, who remained in London, assisted as they built their website, sustaining themselves and the company for the first seven months on £12,000 of self-funding and an additional £20,000 borrowed from family and friends. They kept expenses low by operating out of their living room, in the true spirit of web startups.

After a beta test among friends in March 2008, Adams and Hsiao have improved the system, facilitated by user

feedback that comes through a large red "feedback" button on the website.

Adams, Hsiao, and Mohammed began seeking investors in August 2008, and in September 2009 traveled to Seedcamp, a London workshop for Europe's most interesting fledgling internet companies. Entrip was one of twenty-three ventures chosen from hundreds of Seedcamp applicants, representing start-ups from 153 cities in 36 countries. EnTrip was not one of the seven Seedcamp Winners, because investors there preferred to finance proven concepts even though they liked EnTrip. Indeed, according to Hsiao, the common refrain from investors is "great concept, but unproven; go to market and get some initial users and traction; then come back to us."

To ensure the future financial viability of the company through full launch of the product, the EnTrip founders first tried to raise £200,000 by early 2009, but in any event continued generating their own capital by completing software-development projects on the side. In the meantime, EnTrip has hired a team of three employees based in India, and is working to create partnerships with travel companies.

Once EnTrip is fully operational, Hsiao anticipates five primary revenue streams:

- Local, targeted advertisement (e.g., on-map);
- Referrals and commissions on bookings for flights, hotels, cars, and tickets;
- Selling EnTrip regalia, such as printed photobooks, tee and polo shirts, calendars, and photos, as well as maps and quotes from users' travels;
- Selling trips and tours from the map interface; and
- Offering EnTrip as a white label for destination sites, which in turn will allow these sites to offer more content to their users and generate more revenues.

Hsiao warns, however, that "being a startup, our business model can change at the blink of an eye."

As of summer 2009, EnTrip offered richer, more useful content and connections to additional travel services, including travel information and ratings, search engines, and blogging sites. Entrip is already connected to key social networking sites, such as Facebook. Moreover, EnTrip will be able to derive deep analytics regarding user behavior, so as to manage and respond to feedback faster.

Outcomes

EnTrip introduced its travel tool to the public and the travel blogging community late in 2008. The concept had also received accolades within various competitions for start-ups, including second place in the Symbiosis Institute of Business

¹⁴ JupiterResearch, "JupiterResearch Finds That the Growth of User-Generated Content on Travel Websites Takes Control Away From Marketers," June 2, 2008, www.jupiterresearch.com/bin/item.pl/press_release/2008/id=08.06.02-online-travel.html, as viewed November 19, 2008.

Management “Endeavor ’08 Pitch Perfect,” and the “People’s Choice” award for Web-in-Travel’s 2008 start-up pitch.

Google executives have taken note of EnTrip’s approach. Christian Hernandez Gallardos, Google’s head of distribution partnerships, stated: “EnTrip is one of the most innovative implementations of the Google Maps ap that I’ve seen in awhile.”

Insights

Hsiao offers the following advice to similar start-ups:

- It is okay to worry, because doing so will help you make the right decision. Do not worry about being worried.
- Interactions within the team are always fast; interactions with any outside party are never fast and never controllable.
- Distance matters: working in remote teams does not work well for a start-up where close interaction and shared knowledge are key.
- Conferences, summits, and other related events are important. Go out and talk to people and fellow professionals in your industry.
- Know who you speak to and speak that person’s language.
- Be alert for the unexpected event. While you are focused on your own business, chances are that some major external event will blindside you. Thus, in a fast-paced market like online travel, focusing on perfecting components, as opposed to getting things done quickly and moving on, will almost certainly be the wrong strategy.
- Talk to users; find out what they want, and what they do not want. Everyone says to do this, but almost no one actually does.
- Mistakes happen, so it is important to communicate why they happened and how they are being fixed. This communication creates the difference between a forgiving user and an indifferent user.
- Place emphasis on hiring people with experience in travel, so as to obtain guidance and mentoring.
- In a start-up, everything you don’t do, doesn’t get done. Everything must be structured and prioritized.”
- Hire people sooner to help; build a team with the right mindset early on.
- Do not use online job sites for hiring as too many average CVs are submitted.

Using a graphic interface, the Hotels.com Visualiser allows users to indicate their travel preferences by clicking on thumbnail images to build a set of characteristics and preferences.

Hotels.Com: The Visualiser

by Judy A. Siguaw and Martin Allen

Description

Hotels.com’s Visualiser is a visual search tool, the beta version of which was initially accessible only from the www.hotels.co.uk homepage. The Visualiser asks prospective travelers to choose the image that best represents what they want on their holiday. For example, users are asked to respond to the following queries by clicking on one of 15 thumbnail sketches that best represents their response to each statement: “I’m looking to spend most of my time doing...”; “This is the room style that suits me”; “This is the style of restaurant I’d like to eat in”; “I’m looking forward to this feeling on my trip”; “My idea of a fun night on this trip...”; and “I’m traveling with...”. Finally, travelers are asked to provide their gender, age bracket, purpose of trip, and destination of choice.

Taking less than a minute to complete, the Visualiser identifies the needs of travelers (over 30 billion preference combinations are possible) and cross-references these needs with the Hotels.com database to return a set of the most appropriate hotels to suit the customers’ characteristics and preferences. Travelers can also “create separate profiles for different trips, filter the results by price and star rating, and

The Luggage Club provides a custom door-to-door delivery service for travelers' suitcases and other baggage, ensuring that materials arrive on time and in good condition.

rate and comment on hotels to improve the site's accuracy."¹⁵ Not only does the Visualiser dramatically reduce the time typically spent choosing the right hotel, but it also enables people traveling together to simultaneously view the possible choices and vote on their preferences.

Based on the images selected, travelers' VisualDNAs are derived to create a traveler profile that reflects their corresponding holiday personalities. These profiles include:

- *Adventurer*: ready for any activity, they like a holiday that leaves them feeling invigorated and inspired; they need a hotel base that will not hold them back;
- *Cultural Buff*: loves to get under the skin of a place and be perfectly located to make the most of the museums, concerts, and galleries;
- *Enlightened Explorer*: seeks full-on immersion in the local way of life and requires a hotel at the heart of all the local activity. They thrive on the thrill of discovery and love to uncover all the hidden gems on offer;
- *Happy Holidaymaker*: looking for minimum stress and maximum fun, and seeking a hotel where they can unwind and enjoy their time off;

¹⁵ Web User, "Hotels.com Visualiser," No. 197 (September 25–October 8, 2008), www.webuser.co.uk/sites/site_review.php?rev_id=4731, as viewed November 8, 2008.

- *Luxury Escapist*: a jetsetter at heart who is probably most comfortable reclining in first class. They adore the five-star pampering experience and hotels that cater to their every need; and
- *Socialite*: Seeks to socialize, so they will want to be in the center of all the action and near to the buzzing bars and restaurants.

In addition to returning recommendations based on the user's profile, the Visualiser tool offers:

- A "surprise me" function for travelers with no specific location in mind, which matches travelers' profile requirements to destinations around the world. Research indicates that approximately 12 percent of the United Kingdom's online travel shoppers have no particular destination in mind when planning a trip.¹⁶ Furthermore, this option can assist Hotels.com in improving profitability by featuring certain properties;
- A "share feature" that enables travelers to save their searches and send them on to friends or family to poll their favorite choices, eliminating the need for multiple emails; and
- An easy-to-use slider bar to refine searches. Users can narrow the selection of hotels towards no-frills properties, toward the luxury end of the market, or towards modern or traditional properties.

The Visualiser responds to two consumer concerns. First, research indicated that 74 percent of travelers were hesitant to stray from familiar vacation destinations, largely because of a lack of knowledge about alternatives. In addition, 28 percent of these respondents specifically noted that ignorance prevents them from trying new places.¹⁷ The Visualiser gave Hotels.com an innovative way to help users overcome their fear of the unknown.

The idea for the Visualiser was born when Dermot Halpin, Expedia's European president and CEO, saw VisualDNA, a software application that could be modified to provide a fun way to achieve the goal of educating travelers about unfamiliar destinations. In April 2008, Halpin shared his vision with the Hotels.com European, Middle East, Asia (EMEA) team, who recognized the advantage of a swift, workable application.

Halpin committed the business to exploring the idea under tight deadlines. Martin Allen, head of customer marketing for Hotels.com EMEA, was appointed project manager and brought in analytical, hotel account manage-

¹⁶ European Technographics Retail, Customer Experience, and Travel Online Survey, Q3, 2008.

¹⁷ Hotels.com, "Hotels.com Launches New Hotel Search Tool to Inspire Travelers," September 2008.

ment, and public relations team members to focus on speed to market and innovation.

No customer feedback was gathered because VisualDNA had already been used in a variety of contexts. Hotels.com believed it already had an understanding of what would work, and data gathering would have delayed implementation. Moreover, the concept was perceived to be innovative by industry experts, such as Forrester Research,¹⁸ because it allowed travelers to search by theme, had considerable functionality, and offered wide appeal.

Execution

To prepare for full-scale implementation, Allen first met with Imagini, the software supplier, to share insights concerning popular destinations, brand guidelines, and purchase behavior that had to be incorporated into the Visualiser application so as to define the traveler profiles that would categorize users and allow appropriate hotel recommendations. Imagini then developed a series of prototypes that would be consistent with the Hotels.com website format.

Once the profiles were identified, Allen engaged Expedia's market management team to validate the proposed match of hotel types to traveler profiles. A series of detailed test scenarios identified and addressed bugs to ensure that the tool was working correctly. Engaging the Hotels.com market managers in the hotel scoring process also garnered their support, as did maintaining clear lines of communication between all affected teams (analysis, public relations, merchandising, market management, and legal).

In September 2008, Hotels.com launched the Visualiser on its website via numerous ad placements, sent email to its subscriber base, and issued press releases to various news sources, including bloggers.

Outcomes

The Visualiser drew rapid acceptance, with 50,000 users completing the survey in the first three months of its release, and numerous hotel bookings made through the tool, as well as substantial coverage in consumer and trade media, including *The Sun*, *Web User*, *Times Online*, and *Condé Nast Traveller*. With a total estimated value in excess of £100,000, the value of the public relations coverage secured within two weeks of launch was greater than the cost of development. Furthermore, the Visualiser demonstrates Hotels.com's ability to develop and implement innovative ways for customers to interact with the company, and to generate incremental bookings for the suppliers' hotels.

¹⁸ Henry H. Harteveldt, with Carrie Johnson and Kate van Geldern, "Visually Based Search Elevates Online Travel Booking: Hotels.com's New UK 'Visualiser' Tool Imbues Emotion into Trip Planning." Cambridge, MA: Forrester Research, September 15, 2008.

For customers, the Visualiser provides a fun, insightful, and intuitive way for them to find a hotel that suits their needs, tastes, and travel style. Bloggers also report that the visual search tool is a faster and more interesting alternative than completing vacation preference forms manually or with drop-down boxes.¹⁹

Insights

This innovation has demonstrated that people are happy to discover new solutions to old problems, such as shopping for a hotel. It is also true that people are curious about how their characteristics fit with those of other consumers, in this case, the users of Hotels.com.

Although the Visualiser was designed as a promotional tool, its acceptance has caused Hotels.com to extend its availability. Instead of using it as mere promotion, Hotels.com will seek to expand the number of hotels in existing destinations on Visualiser, increase the number of destinations, and attract more traffic from external sources, as well as extend the concept to vacation rentals.

For others trying to manage similar application projects, Allen advises:

- Keep things simple;
- Avoid "scope creep";
- Strive for quick and accurate delivery;
- Consider what the customer wants and always place their requirements at the forefront of development and implementation; and
- Put necessary tracking in place to allow thorough evaluation.

The Luggage Club: Door-to-Door Baggage Delivery

by Judy A. Siguaw

Description

Available in 220 countries and territories worldwide, the Luggage Club provides a custom door-to-door delivery service for travelers' suitcases and other baggage. Operating around the clock six days per week, the Luggage Club has no restrictions on the number, weight, or size of the bags. Moreover, the cost per bag decreases as bags are added to the order. The Luggage Club offers arrival guarantees and provides gratis insurance for up to \$1,000 per item shipped. Customers may specify delivery times, ranging from the next morning to up to five days hence.

Although it's true that customers could ship their own goods, the Luggage Club manages the entire process—boxing and weighing items, filling out forms, entering the baggage into the freight company's system, tracking the goods,

¹⁹ Colleen Saville, "Hotels.com Introduces 'The Visualizer,'" September 23, 2008, <http://blog.flipkey.com/2008/09/23/hotelscom-introduces-%E2%80%9Cthe-visualizer%E2%80%9D/>, as viewed November 8, 2008.

Royal Plaza on Scotts adopted an approach of “branding” its service—by totally redesigning, upgrading, and reenergizing service procedures and attitudes—as a means of creating a differentiated, competitive edge.

and contacting receivers at final destinations to deliver the goods.

The Luggage Club was created to address the poor and costly baggage handling on the part of the United States airlines. The frequency of mishandled baggage was 5.82 per 1,000 passengers in the first six months of 2008,²⁰ and lost baggage rates reached 9.01 per 1,000 passengers in December 2007.²¹ Restrictions on carry-on baggage force most travelers to check their bags, incurring the risk of lost luggage. Approximately 2 percent of all misdirected luggage is permanently lost.²² To make matters worse, it can take seven to thirty days for the airline to deem the bag lost.

Execution

Todd Kempinger, chief executive officer, formulated the concept for the Luggage Club in 2001, and converting the Luggage Club from a concept to an operating company required two years. Capitalizing the Luggage Club required

²⁰ U.S. Department of Transportation, Office of Public Affairs, “June Airline On-Time Performance Better than Last Year, Down from May,” August 5, 2008, as viewed November 12, 2008.

²¹ Research and Innovative Technology Administration, Bureau of Transportation Statistics, “Flight Delays, Mishandled Bags, Consumer Complaints Increase in 2007,” February 5, 2008, www.bts.gov/press_releases/2008/dot017_08/html/dot017_08.html, as viewed November 12, 2008.

²² The Travel Insider, “Your Rights If Your Bags Are Lost,” October 25, 2008, www.thetravelinsider.info/travelaccessories/lostbaggage.htm, as viewed November 12, 2008.

two rounds of funding; private investors injected capital into the firm in July 2006 and May 2008.

Early critics argued that travelers would not pay to have their items shipped by an expediter, but the Luggage Club has proven this argument invalid. Moreover, the airlines confirmed the need for the service by themselves charging for bags—and doing it on an increasing scale.

One effective strategy for the Luggage Club was to align the company with strategic partners, such as Sabre Travel Network, Dollar Thrifty Automotive Group, Marriott Rewards, and numerous golf schools. These partnering efforts have provided the Luggage Club with greater credibility within the travel industry. The Luggage Club promoted its delivery service through word-of-mouth, pay-per-click ads, and numerous press releases, which focused on the various difficulties of travel and baggage transportation. Prices vary depending on the item to be shipped. For example, a large, 70-pound suitcase traveling from New York City to Los Angeles might cost \$408.30 for next morning delivery, or \$124.07 for five-day delivery service. In contrast, shipping a short surfboard weighing approximately 25 pounds ranges from \$224.46 for next morning delivery to \$94.24 for five-day service.

A 10-percent discount is offered for physically disadvantaged travelers, and other travelers, such as business travelers enrolled in the corporate program, frequent travelers, and travel agents, can negotiate discounts based on frequency of use.

Outcomes

Although early adopters have embraced the innovation represented by the Luggage Club, the general public has not fully adopted it. Changing people’s travel habits is challenging, and the speed of acceptance from the larger majority has been slow. Given increasing frustration with the airline service, heightened airline fees, and the need to ensure that certain goods absolutely arrive when needed, the Luggage Club should continue to see an increase in business.

So far, the Luggage Club’s business appears to come from travelers on tight travel schedules, such as consultants, who must ensure that their materials make it to their next destination without fail, and sport professionals, such as golfers, who require that their sporting equipment be on hand when needed. In addition, politicians and celebrities are joining the customer ranks of those seeking relief from the headaches of traveling with luggage and other goods. These customers feel more secure using the services of the Luggage Club, given a delivery success rate exceeding 99 percent.

Success within the consumer market is being monitored through orders submitted, return customers, and website

visits. Moreover, the Luggage Club's revenues rapidly increased at a year-on-year rate of 250 percent for 2008.

Insights

For those seeking to place innovative services into operation, Kempinger suggests, "Do your research and be absolutely sure your financial projections are in order." Kempinger observed that if he were starting over, he would manage the financing differently by "funding the project in its entirety up front, as well as having a better IT plan." Kempinger has also learned to be patient; changing consumer behavior takes much longer than he had originally anticipated.

Additional services are already being added to the website. For example, consumers can now purchase luggage, golf cases, sports cases, surfboard wraps, and travel insurance. Customers can also now find travel information with just one click. The firm plans to continue adding features to its website, based on customer feedback.

Royal Plaza on Scotts: Successful Branding of Customer Service

by Judy A. Siguaw and Odette A. Huang

Description

Newly independent after thirty-two years of chain affiliation, Royal Plaza on Scotts faced the challenge of establishing itself as an independent brand. The hotel has operated under six names, including the Royal Holiday Inn Crowne Plaza and the Royal Crowne Plaza Singapore, creating a confusing brand image for prospective guests. In 2005 the hotel began a \$20-million dollar renovation and was renamed Royal Plaza on Scotts.

In conjunction with the physical renovation of the hotel, the general manager stated that upgrading the facility was not enough: "We [the staff] must renovate our 'heartware' as well." The management team concurred that product differentiation alone was insufficient to set the hotel apart, especially as one of the few independent hotels operating in the intensely competitive Orchard Road area. In September 2006, therefore, the hotel embarked on redesigning, upgrading, and reenergizing its customer service as a means of creating a differentiated, competitive edge. Royal Plaza on Scotts was one of the first hotels to adopt this approach of "branding" its customer service through a complex, multi-step course of action.

The facility and service upgrade was provoked by customers who commented on the property's "tired" look. With the multi-million-dollar makeover, which allowed Royal Plaza to be repositioned as a world-class business hotel, the brand itself had to be enlivened so as to be meaningful and relevant to the customers, staff, and the community. As part of that makeover, the staff had to be capable of articulating

and acting on the new brand concept, image, and values in an evocative, interesting way to ensure the success of the newly independent property.

Execution

Seeking to follow the "branded customer service" approach, the general manager, Patrick Fiat, hired Janelle Barlow, the concept's consultant and developer, to help coordinate the rebranding process. Barlow had convinced the hotel's management team that branding the property's customer service would ensure success. Aside from the general manager, the principal early supporters of this "branding" process were the human resources director and the director of marketing, who was responsible for coordinating with Barlow and her consulting team to plan for the different stages of the change process.

First, the hotel conducted a brand audit by conducting guest focus groups and surveying the staff to discern their likes and dislikes concerning the existing hotel and what they wanted to see in the renovated property. The human resources office collected data from the staff, and customer input was gathered from corporate bookers and regular customers. Nanyang Polytechnic was engaged to conduct the focus group discussions.

The focus groups and surveys pinpointed the hotel's strengths and weaknesses, including service delivery standards and styles. The team first addressed strengths and weaknesses that allowed a quick response. For example, clients pointed out that they particularly enjoyed the natural interaction they had with the staff. It was logical to build on this factor and use it to differentiate the hotel by eliminating scripts, as we explain in the next step.

To create the desired brand image, the hotel ran a two-day workshop, facilitated by Barlow and involving three dozen staff members representing a cross-section of the hotel, including the general manager. Based on customer feedback, management wanted to focus on authenticity as a quality to win repeat customers, in contrast to competitors' heavy reliance on scripting and rigid standards, which customers found robotic and cold. Breaking with tradition, the hotel eliminated scripts and allowed staff members to express themselves naturally. To guide employees' responses, the workshop focused on:

- Developing the Royal Plaza brand;
- Identifying the new mindsets to be embraced by the hotel;
- Articulating Royal Plaza brand values, using the acronym of S.E.R.V.I.C.E., as follows:

Seamless—We ensure that our guests deal with one hotel and not multiple departments;

Empowered—We are empowered to take care of our guests' needs to make things hassle-free;

Refreshing—We work at distinct details which make Royal Plaza on Scotts a haven to recover from the exhausting demands of business travel;

Versatile—We are committed to enhance our services and simply make it easier to do business;

Individualized—We do not use scripts in our interactions, as each guest has their own personalized needs and preferences;

Charming—We believe in wholehearted friendliness for our guests and our colleagues; and

Extraordinary—We seize every opportunity to create as many “wow” moments as possible;

- Defining the tone, spirit and logic of the hotel's communication style for both internal and external customers; specifically:

Tone—What sort of language will we use in our communications? —Vibrant, Confident, Sincere, Welcoming, Understanding, Reassuring, and Professional;

Spirit—When we read the communication, what feeling will it give us? How will it make us feel? What are the emotional drivers? —Warm, Trustworthy, Personalized, Memorable, Anticipation, and Exciting; and

Logic—How will our arguments be constructed? What rational drivers to do our values imply? —Flexible, Competent, Innovative, Choice, Efficiency, Straightforward, Consistent, and Reliable;

and

- Developing the Royal Plaza story on how its brand values can come to life in the daily interaction with its customers and colleagues.

Step three required identification of employees who would be change catalysts or brand champions, serving as role models and acting as “cheerleaders” to help rally the staff around the brand values identified in the workshop. The key messages of the brand image workshop were also developed and disseminated to the staff.

To approach the delicate matter of obtaining staff buy-in, step four involved incorporating the brand values into the daily terminologies used in meetings to align the daily staff activities with those values. The hotel reviewed and modified management systems to ensure that its environment was conducive to implementing the new brand values.

Finally, brand development was added to the marketing director's responsibilities, so that the corporate brand values were constantly incorporated into messages disseminated to both internal and external customers. Because the branding strategy was well supported by the hotel's owners and the entire management team, the staff embraced the approach and resulting challenges.

The fifth step involved conducting brand engagement workshops to share the brand audit findings. Conducted in April and May 2006, these workshops allowed staff members time to practice or have a trial run after the branding process was completed and before the renovated property opened in December.

Each session of the brand engagement workshop involved a small group, about thirty employees, beginning with management staff, including department heads and the general manager. Each workshop began with a discussion on the meaning of the brand to ensure that everyone understood that it meant more than just a logo, name, or tagline. The meeting then unveiled the desired staff mindset, along with the S.E.R.V.I.C.E. acronym and the brand story.

Conducted in the three local languages (English, Malay, and Mandarin), the workshops were managed like VIP functions, including special food items and personal touches, and showcased new ideas on how to enhance the Royal Plaza customer experience. Thus, the staff was able to experience the new service style. Team building and games were interspersed with the presentations to make the experience more engaging and fun. Each workshop concluded on a high note, with all participants singing “What Can I Do for You,” composed as a grand finale for this occasion. To reinforce the meeting's message, participating staff members were given reminders the size of a credit card containing the hotel's mission, brand values, and service basics. Everyone was encouraged to sign these cards and keep them “close to their hearts” as a reminder of their commitment to deliver the S.E.R.V.I.C.E. promise.

The sixth and final phase of the process was implementation, which required several adjustments to hotel processes and procedures. First, recruitment processes had to be altered so that prospective staff members could be evaluated for “brand fit,” that is, the right attitude to deliver service according to the organization's brand values. Second, an abbreviated version of the brand engagement workshop was integrated into the staff orientation program to ensure that all newcomers comprehended the key values and brand image. Third, the performance management appraisal system was redesigned to include a section dedicated to measuring how each staff member had succeeded in making every brand value come to life within the appraisal period. Fourth, metrics were also established to measure guest feedback on their

service experiences with the hotel in a way that was aligned with the brand values. Finally, ongoing system reviews were employed to ensure continuous alignment.

During the April–September practice period, the entire staff of the hotel was mobilized to start “living the brand.” Each brand champion was tasked to roll out a brand value by organizing fun and engaging activities to communicate the essence of the brand value and demonstrate how the value could be the key component in staff interactions with guests. The brand champions prepared videos, organized gimmicks at the staff canteen, and orchestrated surprises at the staff entrance to encourage everyone to focus on the highlighted value.

The back-of-the-house corridors were given names corresponding to S.E.R.V.I.C.E., for example, Jalan Seamless and Empowered Alley. These “street signs” were launched one at a time by different departments, thereby creating a festive spirit in the hotel and generating zest among the staff.

The “practice period” revealed the systems and procedures that required modification to support the S.E.R.V.I.C.E. promise. Most critically, management had to review the degree to which staff members were empowered and define parameters as to what issues the staff could resolve and which required managers’ intervention.

All external communications were aligned to the Royal Plaza brand. The S.E.R.V.I.C.E. promise was communicated to key corporate accounts when the opening of the newly renovated hotel was near. It was important to demonstrate to these clients that the transformation of Royal Plaza was not just anchored on the renovation but supported by a collective commitment to a specific level of service. Internal communications, including staff bulletin boards, briefings, a newsletter, and informal meetings, reiterated the S.E.R.V.I.C.E. concept, and colorful posters of each brand value with a brief description, featuring staff as “models” were displayed in all departments.

In designing the new logo of Royal Plaza on Scotts and all other materials, it was essential that the design elements reflect the hotel’s new brand values and personality. Although employees continued to wear uniforms, a new design allowed employees’ individuality to emerge.

Finally, during the renovation, a general staff outing was held to build a high level of staff engagement. Since the hotel was closed, it was the first time in many years that all the staff members could congregate at an off-site venue to interact and have fun. Games were once again aligned with the S.E.R.V.I.C.E. promise.

Outcomes

When the doors of the renovated property opened in 2007, guests noticed the difference in the service delivery,

and some guests articulated their experiences using the terms of the brand values, noting, for instance, that they enjoyed the “seamless” check in or the “refreshing” touch of receiving a cake for their birthday. Furthermore, guest comments and ratings catapulted the hotel from its previous position of number 28 (of 184) on Tripadvisor in 2008 to number 7.

After the renovation, Royal Plaza won numerous awards, including, in 2007:

- Best Independent Hotel Award 2007 (TravelWeekly Asia),
- Expedia Insiders’ Select 2007 (Expedia),
- Best City Hotel 2007 (TTG Travel Awards), and
- Carousel, Best Buffet Restaurant in Singapore 2007 (The Straits Times);

and in 2008:

- ASEAN Green Hotels Recognition Award (Singapore Tourism Board),
- Best Employer (Individual Category) Award 2008 (TravelWeekly Asia), and
- Best Independent Hotel Award 2008 (TTG Asia Travel Awards).

Not only did employees feel more empowered, as their personal expression was encouraged in the organization, but they were proud to have won the industry awards listed above. In addition, the hotel won new blue-chip accounts, some of which had never previously considered the Royal Plaza.

By “branding” customer service, Royal Plaza was able to clearly articulate and act on its brand promise and to be more focused and consistent in its business objectives, strategies, and customer retention initiatives. In turn, management and staff expressed a constant desire to do things in a “refreshing” way, personalizing how the staff cared for guests, and seizing moments to transform into extraordinary experiences for Royal Plaza guests.

The hotel’s owners were pleased with the fact that financial targets were exceeded. They were also proud that, as an independent hotel, the Royal Plaza was slowly able to gain market share against its internationally branded competition. Average daily rate, for instance, increased from S\$194.71 in 2006 to S\$282.64 in 2008. Similarly, revenue per available room increased from S\$123.02 in 2006 to S\$240.29 in 2008, and gross operating profits increased from nearly 33 percent in 2006 to just over 53 percent in 2008. Since the total estimated cost for the implementation of this innovative practice was S\$250,000, the return seems considerable. Although funds have been allocated to sustain these efforts, the view is that the money was well spent.

Tastings: A Wine Experience has innovatively combined self-service wine technology with extensive selection, educational support, and a value proposition that includes quality food, a warm atmosphere, and excellent service.

Insights

Any hospitality organization can take the approach used by the Royal Plaza, but it entails a major commitment. Royal Plaza continued to fine-tune its service initiatives to ensure they remained parallel with its brand values. The hotel also sought new ways to measure and reward staff performance on delivering on the brand promise.

The process demonstrated that branding is not just about the product, but is manifested in what a company does for its customers and staff. This knowledge and clear actions for institutionalizing the brand values allowed an independent hotel like Royal Plaza to effectively compete with chain-branded hotels by differentiating its service experience. Such a branding effort can be successful only if it has total support from the top and all stakeholders involved. Otherwise, such an initiative will quickly fail.

Tastings: A Wine Experience— Bringing Self-Service to a New Art

by Judy A. Siguaw and Nigel Goodwin

Description

Using wine-serving technology pioneered by Italy's Enomatic, Tastings: A Wine Experience has created a chain of franchised wine bars in the eastern and southern United States. The Enomatic machines and similar equipment made by Napa Technologies replace oxygen from open bottles with nitrogen and create a vacuum-like seal to prevent oxidation

and allow the bar to serve from a particular bottle of wine over an extended period. Typically featuring over 120 wines at a time, Tastings establishments offer some of the largest collections of wines available for sampling. With sizes of 1.5, three, or six ounces, Tastings' small portions allow patrons to taste more varietals and vintages before choosing their favorites. One customer described Tastings as "Disney World for wine drinkers."²³

In addition to wine, Tastings serves a light, moderately priced, bistro-style menu, both to complement the wine and to encourage customers to spend more time in the shop. Prepared in an open area behind the bar to create a hospitable atmosphere, the low-labor menu comprises appetizers, flatbread pizzas, specialty cheeses, and more substantial "bistro plates." No single item is priced above US\$20 and most are well below that value. Moreover, guests may enjoy their newly purchased bottles of wine with those meals, although Tastings assesses a corkage fee of US\$10.

The self-service concept controls labor costs and allows customers to proceed at their own pace with the wine tasting. They select wines by reading shelf talkers, choose sample sizes, and pay by swiping pre-paid cash cards. Tastings provides note cards so that customers may record their impressions of each wine. Tastings' club-like atmosphere features dark, warm colors and comfortable leather furnishings. The wine-inspired artwork gracing the walls is for sale. Patrons may sit near the tasting stations or at the bar as they sample their wines. The featured wines are available by the bottle, as are wine accessories, and customers may rent wine lockers to store their purchases. Tastings' locations also feature private function rooms, as well as regular happy hours, hospitality nights, and musical performances.

Tastings seeks to educate its patrons. Each machine bears a label profiling the wine by its varietal, vintage, aroma, and flavor, and books offer more extensive information about each wine's grapes, winery, vintner, production methods, food pairings, and awards and recognitions.

Tastings' wide collection of wines comes both from large, prominent vineyards and small, boutique wineries. To be included in the collection, according to the Tastings website, a wine must "give exceptional representation of its varietal" and "have distinct qualities separating it from the norm." Although new wines are introduced each week, Tastings normally keeps its wines in rotation for two to three months. Tastings will order wines it no longer carries, if they are still available from the supplier.

Execution

Co-founders Penny and David Maso found the Enomatic technology at a self-service wine bar in Italy. The Masos,

²³ Caroline Gabsewics, "Tastings—More Than Bottles of Wine," *Daily Record*, June 15, 2007.

who had a passion for food, wine, and hospitality, decided to bring the concept home, sharing it with their close friends, Gail and Michael Newfield, who became co-founders in the Tastings venture. Together, the four built the business model over a period of eight months, prior to launching the first Tastings.

Although the Masos and Newfields were confident about their concept, Michael Newfield nonetheless researched consumer trends which further bolstered their convictions about the potential success of the business. Some of those trends are as follows: (1) wine consumption within the United States has increased for the past twelve years; (2) the 23- to 30-year-old demographic group has a strong interest in wines; (3) the U.S. Hispanic market is a burgeoning wine-consuming group;²⁴ (4) wine consumption is associated with certain health benefits; and (5) women in particular have a high comfort level for wine bars, as compared to traditional bars.²⁵

The Masos and Newfields opened the first Tastings in downtown St. Petersburg, Florida, in 2005, promoting its unusual self-serve delivery system through advertising, public relations, and participation in trade shows. The business did well, and the Tastings management began receiving inquiries from other interested parties. Recognizing the market potential, the co-founders decided to franchise the Tastings business. Success of the Tastings' franchise model is founded on maintaining low opening, labor, and inventory costs, while providing high margins and inventory turns.

The Masos and Newfields ask that interested franchisees share a passion for wine, food, and entertaining. The ideal franchise location is 2,200 square feet, with a range of 1,600 to 2,700, depending on the site. Franchisees develop multiple revenue streams: wine dispensers, bar, food, wine bottles, wine accessories, art, private events, and wine-locker rentals. Start-up costs are estimated to be between US\$400,000-\$550,000, including approximately US\$150,000 for the dispensing machines. Franchisees pay royalty fees of 5 percent of gross sales, must invest 1 percent of gross sales in local marketing, and pay an additional 1 percent for a national advertising account managed by the franchisor. Wines are selected from a list of approximately 800 approved labels and are purchased from approved distributors. Equipment for serving wine and preparing food may be purchased from a list of approved vendors at specially negotiated prices. The Masos and Newfields initially purchased their system from

²⁴ Beverage Information Group, "U.S. Wine Consumption Still Climbing with No End in Sight," www.reuters.com/article/pressRelease/idUS124526+22-Aug-2008+PRN20080822, August 22, 2008, as viewed December 1, 2008.

²⁵ Elizabeth Browne, "Wine Bars Uncorked," *San Francisco Business Times*, June 11, 2004, <http://sanfrancisco.bizjournals.com/sanfrancisco/stories/2004/06/14/focus1.html>, as viewed December 3, 2008.

Enomatic in Italy, but have since approved use of a system from U.S.-based Napa Technology. Franchisees may use either one.

Outcomes

The Tastings concept appeals to neophyte wine drinkers and connoisseurs alike. One might say that Tastings is bringing the formerly exclusive pursuit of wine appreciation to the masses. Sample prices range from US\$1.90 to as much as \$14 for 1.5 ounces, but that pricing allows consumers to test the products before committing to the full bottle. More to the point, because samples are available in different sizes, customers can taste premium wines that they would not otherwise drink. Thus, instead of purchasing a \$200 bottle of wine, they may purchase a \$14 sample.

Tastings seems to have popularized wine appreciation in the areas surrounding its shops. Michael Newfield says, "One finding that we anticipated and proved was that we create a synergistic effect on the consumption of wine in an area." In that regard, when Tastings opened its St. Petersburg location, a small wine bar two blocks away was widely expected to lose customers and close its doors. Instead, its business increased, and it doubled the size of its facility one year after the Tastings launch.

Tastings sold its first franchise in August 2006. There are now five franchise locations, in Connecticut, Florida, Georgia, and Texas, bringing the total number of locations to six. Five additional shops were set to open at this writing.

Employees appreciate Tastings' innovative business model and are, as Newfield says, "enthusiastic." Rather than seek employees with specific skills, Tastings simply hires people who love wine and then trains them. The employees are encouraged to sample all the wines, so that they can answer the customers' questions and promote sales. Employee attrition is low.

The concept claims high repeat patronage. While there are no specific measurements or definitive data, Newfield estimates that the Tastings' customer return rate is twice as high as that of similar concept stores. Tastings is generally a profitable venture, but the profitability of individual locations varies. There is a strong correlation of the franchisees' capabilities and commitment with their sales and profitability. As Newfield explains:

A store ultimately reflects the owner's persona, as does the staff in each store. Those franchisee owners who work hard, motivate their staff, display leadership, and buy into the corporate model—all make money. Those who have negative attitudes, allow the staff to deviate from the model, and are not business savvy, have a tendency to lose money. Thankfully, this is only a few. This has been a great learning point for us as we screen potential owners extensively now.

Insights

The use of nitrogen to preserve open bottles of wine is neither new nor unique to Tastings. The key innovative points of its business model include the extensive selection, its self-service element, and its educational support. Beyond that, the Tastings' value proposition includes quality food, a warm atmosphere, excellent service, and above all else, a passion for the product. This sets Tastings aside from other wine bars, even those with similar self-service delivery concepts. "Do not build a concept on the innovation," Newfield advises other would-be entrepreneurs. "Allow the innovation to be a complement to your concept."

While the trial option is based on self-service, Tastings maintains a high level of customer service for all other elements of the experience, from the food service to the retail transactions. Newfield's discussions with customers revealed that a typical patron enjoys the novelty of the self-service tasting method enough to make three or four visits to the store, but the novelty then begins to fade. Excellent service is required to sustain the customer relationship beyond that point. As Newfield says, "Regardless of the innovation, in the service industry, employee service ultimately is still the main reason people will visit a concept. Our motto is 'Self-service does not mean no service.'"

Tune Hotels: A la Carte Pricing

by Judy A. Siguaw and Dennis Melka

Description

Tune Hotels.com is a privately held, limited service, economy hotel chain offering "a five-star sleeping experience at a one-star price." Headquartered in Kuala Lumpur, Malaysia, the company is rapidly rolling out its hotel product in key cities across Southeast Asia.

Tune Hotels' business model embraces many of the efficient operating approaches employed by the low-cost airlines, such as Southwest Airlines, RyanAir, and Air Asia. In particular, Tune uses: (1) direct distribution via the internet, (2) price positioning to stimulate demand and maintain high occupancies, (3) "opt-in and opt-out" amenities, (4) high operating efficiencies, and (5) a simple and consistent operating model that provides the customer a significant value proposition. Tune's pricing, for example, uses ten tiers of room rates, which allows it to offer substantially lower prices for guests willing to book months in advance—a particular boon for residents of developing markets who have limited disposable income. The compact, 11-square-meter room, which includes a queen-size bed with duvet and a bath with a high water pressure shower, reduces capital expenditure without compromising guest comfort. Again borrowing from the airlines, guests pay for rooms at the time of book-

ing and incur penalty fees for any changes. Tune properties offer standard amenities (e.g., air conditioning, towels, soap, shampoo) for an additional fee. Not surprisingly, 75 percent of Tune's guests bring their own towel, indicating their price sensitive nature.

Tune Hotels rooms sell for as little as RM11.56 (US\$3.47) per night, including all fees. Although amenities are extra, guests can keep their costs low by paying only for the amenities they require. During special promotion periods, guests booking well in advance can hire the basic room for as little as RM1.00 (US\$0.29) per night, plus administrative charges. One way that Tune is able to keep its prices low is that it generates incremental revenue in every way possible, including selling advertising space throughout the hotel. As of December 2008, Tune had two properties open and an additional 15 under development.

Execution

The genesis of Tune Hotels was demand from customers of Air Asia, which is the continent's leading low cost carrier (average ticket price, approximately US\$45 per flight segment). Started in 2002, Air Asia revolutionized air travel in Asia by applying Southwest's highly efficient point-to-point route strategy, coupled with internet distribution and low fares. As of November 2008, Air Asia had more than 65 aircraft flying to over ten countries and is anticipated to at least 150 planes by 2015.

Tony Fernandes, CEO and founder of Air Asia, routinely mingles with passengers, chatting with them, distributing Air Asia hats, and posing for photographs. What he heard during those interactions is that travelers enjoyed the airline's affordable prices, but they could not find clean, safe, and affordable lodging once they had arrived. The Tune Hotels concept was Fernandes's response to those concerns. Partnering with Credit Suisse investment banker (and case co-author) Dennis Melka, Fernandes learned that the partners had to risk their own capital to attract investors. Moreover, many industry observers ridiculed the concept of a hotel that did not have in-room television sets and charged for air conditioning and towels. Beyond that, banks initially refused to provide mortgage financing.

Serious work on the development of Tune Hotels began in January 2006, and the first hotel opened in Kuala Lumpur in April 2007. Contrary to bankers' and analysts' predictions, the market's response was immediately favorable, and the company acquired additional sites for development. By the first quarter of 2008, the founders had also assembled a full-time professional management team. Typical properties range from 125 to 175 rooms, with a per-room cost of US\$25,000 to \$30,000 (including land). Labor costs are less than 15 percent of revenues.

Rather than simply adopt existing hotel operating approaches, Tune Hotels' executives created their own model, based in part on informal customer input. They found that they could diminish room size (to 11 square meters from 15) because they determined that their guests were more concerned about cleanliness and affordability than they were about size. Instead of placing a property management system in each hotel, the Tunes founders again drew from the airlines by centralizing reservations and accounting in Kuala Lumpur. Tune's internet and reservation system is outsourced to a specialist company in London that provides "999" (or 99.9%) reliability. Where possible, what are standard fixed costs in most hotels have been converted to variable costs. Thus, for example, the guest rooms have no telephones to saving on monthly tariffs, and all housekeeping is outsourced, so that the properties only pay to clean rooms that have been occupied. Security, maintenance, and engineering services are also contracted out. The company does not use travel agents, and it appears only selectively on third-party websites.

With a relatively young staff, the property general manager is expected to be hands-on, similar to a Starbucks manager. In addition to the GM, each property employs two senior guest service officers and eight or nine guest service officers who work rotating shifts. Although the staff-to-guest ratio is approximately 1:15, each hotel maintains strong safety measures, particularly with a security presence in the lobby. Rooms with maintenance issues are simply taken out of service and fixed the next day by the contracted maintenance service.

With their bright red and white exterior, the hotels are located close to major shopping and sightseeing attractions, so that guests have easy access to food outlets, bars, clubs, shopping, spas, and gyms.

In addition to the queen-size bed with its 200-thread-count duvet, each room has a ceiling fan, electronic key card access, a wall-mounted table with power socket, and daily housekeeping. The hotel provides free internet access in the lobby, a 24-hour convenience store, and a franchise-brand food outlet on the premises (e.g., Subway or Burger King), as well as security cameras and guards throughout the hotel. The add-on amenities are air conditioning, purchased in either a five-hour block (RM4.99, US\$1.43) or a twelve-hour block (RM9.99, US\$2.87); in-room wi-fi (RM12.00, US\$3.45) per 24 hours; and towels (RM15.00, US\$4.31), which includes a free toiletry kit comprising conditioning shampoo, shower gel, and soap. Most of the towel fee is a deposit of RM10.00 (US\$2.87), which is refunded when the towel is returned to the front desk. Moreover, many guests seem happy with the ceiling fan in each room and choose not to pay the additional charge for air conditioning.

Tune Hotels keeps prices low by focusing on what guests need in a hotel room (i.e., clean and safe), and allows them to choose what other amenities they wish to purchase (e.g., AC, or a towel).

The Tune advertising program puts display panels in hallways, elevators, and bathrooms, from such as firms as CIMB Bank, King Koil, Maggi, Marigold, Nippon Paint, McDonald's, and appliance maker Pensonic. Not only do the ads mean revenue, but the hotel saves on the expense of artwork.

Outcomes

Based on intent-to-return data, occupancy rates, profitability, and capital funding, the Tune Hotel concept has proven to be successful. Guests appear to be pleased, given that nine of ten customers said they would return. Thirty percent of guests are repeat customers, and average occupancy exceeds 90 percent. Furthermore, the company's flagship 173-room property in Kuala Lumpur generated earnings before taxes, debt service, and amortization of 52 percent and a 19-percent net income margin for the first nine months of 2008. Tune Hotels has also raised substantial capital for expansion—indicating that investors like the concept.

With strong guest acceptance and substantial financing, the chain anticipates opening 100 properties by the end of 2011, a goal that Melka characterizes as "aggressive, but doable." Tune Hotels anticipates having properties in every city served by low-cost carriers. Regarding competition, some chains—such as Ginger Hotels in India and 7 Days Inn in China—are following models similar to that of Tune Hotels, but there is no direct competition in Southeast Asia.

Tune Hotels also hopes to grow the target market rather than try to compete for other hotels' customers. Over forty low-cost airlines operate in Asia.²⁶ By 2012, these airlines should capture an expected 25 percent of Asia's airline market,²⁷ and as much as 70 percent in India as early as 2010.²⁸ Low prices have attracted new customers. Air Asia, for instance, reports that 50 percent of its passengers are first-time flyers.²⁹ Thus, a massive market in Asia only now can afford to fly because of the presence of the low-cost carriers or lives in previously ignored areas that now have service from the low cost carriers.³⁰ These passengers fit the profile of Tune Hotels' guests. The number of travelers crossing national borders throughout Asia is rapidly growing, with over 70 percent of Asia's tourist traffic originating within Asia. For example, China alone produced over 35 million international tourists in 2007, a number anticipated to reach 100 million by 2020.³¹ Finally, rising incomes across Asia, while still moderate by Western standards, are fueling an unprecedented interest in travel.³²

Insights

Once Tune proved successful, its founders moved quickly to open multiple properties in each targeted city. This expansion will produce efficiencies during the construction process, yield greater brand awareness, and serve as an obstacle to competitors. One issue in the budget hotel sector is that the barriers to entry are low. Thus, if competitors recognize that a market welcomes budget hotels, competing brands are soon everywhere. By buying or leasing several key locations and applying a cluster strategy, Tune Hotels can reduce the

number of competitors in their selected locations. Senior management also noted the importance of having the right people on the team—people who share a passion, are motivated, and move quickly and in concert.

For the future, Tune Hotels intends to avoid Europe and the USA, where there are entrenched, well-financed budget brands and labor costs are far higher. However, senior management believes that the business model will work in large urban centers throughout Asia, Africa, Latin America, and the Middle East.

VisitBritain.Com: Generating an External Revenue Stream

by Judy A. Siguaw and Nigel Goodwin

Description

VisitBritain.com is the official website of the destination marketing organization (DMO) responsible for promoting Great Britain as an international tourist destination.³³ VisitBritain.com, which gives consumers access to more than 50,000 pages of information and is available in 28 different languages, carries out the DMO's mandate online to generate additional tourism revenues throughout Britain and throughout the year by creating world-class brands—and marketing campaigns.

Travel, hospitality, and attractions constitute Britain's fifth largest industry, worth £114 billion and employing 2.7 million people. VisitBritain helps its partners address consumers on a global scale through marketing campaigns and the distribution of tourism products.³⁴ VisitBritain has offices (or representation) in 31 countries, covering 40 markets in total. It also provides information, insight, and advice to the British government and its various agencies on matters related to tourism.

In conjunction with its information sites, VisitBritain has developed online retail platforms, which are managed by VisitBritain's overseas offices in multiple languages and currencies. This platform offers a full range of tourism products, which vary by market and are selected by VisitBritain's overseas office staff for relevance to consumers in each market.

In addition, the DMO creates and operates online retail shops for twenty partners, including railroads and airlines. Through seamless integration, each online shop appears to be part of the partner's own website, but is actually operated by VisitBritain. This practice (known as white labeling) began in 2007. "We want to take these products and services

²⁶ Attitude Travel, "Low Cost No Frills Airlines in Asia," www.attitude-travel.com/lowcostairlines/asia/bycountry.html (2008).

²⁷ Tina Milton, "Low-cost Carrier Market Share to Double to 25% in Asia/Pacific by 2012," DFNI Online.com, June 22, 2007.

²⁸ m-Travel.com and Travel Distribution News, "First GDS partnership for a low cost carrier in India," December 14, 2007, www.m-travel.com/news/2007/12/first-gds-partn.html.

²⁹ Michael Schuman, "Air Raiders," *Time*, July 12, 2004, www.time.com/time/magazine/article/0,9171,501040719-662824,00.html.

³⁰ According to Centre for Asia-Pacific Aviation, 235 Asia Pacific cities have populations exceeding 500,000, and 130 cities exceed one million. A total of 339 regional airports are capable of accepting B737/A320 equipment. John Koldowski and Imtiaz Muqbil, "Cheaper Skies Open Up," Pacific Asia Travel Association, 2004, [www.pata.org/patasite/index.php?id=627&no_cache=1&sword_list\[\]=low&sword_list\[\]=cost&sword_list\[\]=carrier](http://www.pata.org/patasite/index.php?id=627&no_cache=1&sword_list[]=low&sword_list[]=cost&sword_list[]=carrier).

³¹ "China's Outbound Travel Expected to Drop during Beijing Olympic Games," *Travel Daily News*, May 8, 2008, www.traveldailynews.com/pages/show_page/25704; and Lindsay W. Turner and Stephen F. Witt, *Asia Pacific Tourism Forecasts 2008-2010* (Bangkok: Pacific Asia Travel Association, 2008); cited in *Ibid*.

³² Abacus International, "Asian Travel Good Despite Rising Fuel," *4 Hoteliers Hospitality, Hotel & Travel News*, August 16, 2006, www.4hoteliers.com/4hots_nshw.php?mwi=2631.

³³ Distinct from the United Kingdom, Great Britain consists of England, Scotland, and Wales, but not Northern Ireland.

³⁴ Those organizations include the British Council, UK inbound (formerly the British Incoming Tour Operators Association), the British Hospitality Association, and the UK Immigration Service, as well as hoteliers, tour operators and many other businesses.

and place them—or place the ability to search and buy—on the websites of our partners,” explains Kenny Boyle, commercial and marketing services director. VisitBritain can build an online shop to practically any partner specification within a couple of weeks.

The synergy between VisitBritain and its partners allows the partners to share the margin on each product, and helps VisitBritain to generate revenues beyond its government funding.

The shopping partnership works as follows. If a consumer books airline tickets from the United States to Great Britain through American Airlines, that traveler may also purchase an Oyster card for London’s public transit system. Although the Oyster card is supplied by Transport for London, it is sold by American Airlines, with VisitBritain facilitating the transaction and VisitBritain and American Airlines sharing the margin. Margins for products distributed by VisitBritain vary, but average about 18 percent.

As Boyle explains:

Our ability to work with partners this way is good for everybody in the supply chain. It’s win-win-win. We bring more of these important travel service products to more consumers, giving them great value and enabling them to get the very best from their trip to the U.K. Supply partners—those providing the products and services—achieve better reach for their products. And distribution partners—those on whose websites the white-label shops sit—benefit from ancillary revenues, added value services for their customers, and association with a trusted brand—one that is encyclopedic, objective, and authoritative. So everyone wins in this equation, because you’re generating commercial value on a cost-of-sale basis.

The VisitBritain website also offers typical travel search and booking applications for accommodations, airfares, rail tickets, car hire, and airport transfers and taxis, as well as tickets for many sites, attractions, activities, festivals, tours, and sporting competitions (e.g., tickets for the London Eye, Shakespeare’s Globe Theatre, and the London Bridge Experience). With access to over 43,000 diverse lodging establishments ranging from luxury hotels and farmhouse bed and breakfasts to backpacker hostels, the site comprises the largest database of quality-assessed, star-rated accommodations in Britain. The search and booking capability is also “white labeled” for third-party sites in the same way as VisitBritain’s retail platform.

VisitBritainDirect.com is tailored for twenty-five national markets, with information and products presented in a consumer-friendly way to “convert looking into booking” and to help tourists “get the most from their trip,” according to Boyle.

Destination marketing organization VisitBritain.com has developed a wide ranging website that allows partners to distribute its tourism products through “white label” shops that both improve sales margins and facilitate customers’ travel planning.

Although nearly all developed countries are promoted as tourist destinations through dedicated DMOs, VisitBritain’s commercial and distribution activities help “separate Britain from the pack,” according to Boyle:

[VisitBritain] is unique in terms of DMOs. Some would do some of these things but none would have the range, and none would describe it quite as we do. This is absolutely a continuation of our core function as a DMO, representing the “best of Britain.” If we do it well, we will translate the consumer’s interest into action, from looking at what Britain offers to booking all aspects of their trip while experiencing some of our primary destination messages, for example, “value for money” and “welcoming,” even before they arrive.

Execution

Funded by a grant from the British government’s Department for Culture, Media, and Sport, VisitBritain was created by the 2003 merger of the British Tourist Authority and the English Tourism Council. In 2005, Boyle was charged with engaging the industry and the global consumer through online activities. He started with a website that was simply an information source that listed service providers with their phone numbers and URLs. When Boyle’s research revealed that as many as 40 percent of visitors to VisitBritain.com wanted to be able to book accommodation through the website, he began to develop the site as it exists today.

Certain initiatives were already underway at VisitBritain and the various regional organizations. For example, an online accommodation directory for England had been in development since 2000. Boyle decided to integrate and refocus the existing initiatives under the VisitBritain.com banner for commercialization.

Boyle's vision was to make VisitBritain.com a one-stop shop by offering more products than just accommodations. As he searched for additional tourism products and negotiated margins with the suppliers, Boyle initially encountered resistance to commercializing the website, on the grounds that a grant-funded public organization should not provide commercial services. Critics believed that VisitBritain should limit itself to providing information and leave the commercial activities in the hands of the private sector. The initiative was able to continue because it did not require any significant increases in headcount or funding. Instead it redirected the efforts of the existing technical staff, with a cost of £250,000 to develop the storefront application, using off-the-shelf software. VisitBritain.com began offering commercial services in November 2005.

In 2009 and beyond, Boyle plans to add Web 2.0 functionality, perhaps with moving images, mobile phone apps, quality schemes supported by user reviews, and other user-generated content.

Outcomes

As a grant-funded organization, VisitBritain is accountable to the U.K. government. Citing high levels of repeat purchases among visitors, Boyle argues that VisitBritain has done much to aid British tourism. Moreover, British tourism businesses, which are mainly small and medium-size enterprises, now enjoy international exposure and distribution that they could not achieve on their own. Every month, VisitBritain.com generates some £6 million of indirect accommodation bookings (through referrals driven from its accommodation search and booking engine). Perhaps even more important, VisitBritain has diversified that spending beyond London and the high season. Boyle also highlights other worthwhile results, including the reduced queues for purchasing Oyster cards at Heathrow since VisitBritain began distributing them.

VisitBritain claims a significant return on investment, with press coverage equivalent to £3 billion pounds in advertising purchases in 2007-2008. Moreover, VisitBritain and its website have won many industry awards, including the following:

- British Travel Awards Tourist Board of the Year 2008 (VisitBritain);
- TravelMole Web Awards 2008 Best Tourist Board Website (visitbritain.com);
- World Travel Awards 2007 World's Leading Tourism Authority Internet Site (visitbritain.com); and

- New Media Age Website of the Week (during October 2007) (VisitBritain.com).

Consumer response to the commercial and distribution services on VisitBritain.com was almost immediately successful, because the site answered consumer needs and was well marketed. Retail turnover has doubled every year from 2005, and VisitBritain.com received 20.4 million visits in 2007-2008.

Other things equal, VisitBritain's commercial and distribution services will break even in 2010-11, although Boyle stresses that financial return is not the primary goal. Instead, VisitBritain.com and VisitBritainDirect.com exist to provide the best possible visitor experience, to promote Great Britain in the most positive and effective way possible, and to support its industry partners. Boyle anticipates that financial pressure will increase as VisitBritain's grant will shrink from £49.6 million in 2007-2008 to £40.6 million in 2010-2011. Contemplating the reduced grants, staff has been reduced and some activities outsourced to third parties. On the positive side, VisitBritain's innovative efforts—and its reputation for achievement—will mitigate the financial impact of the grant reduction.



Insights and Observations on These Ten Cases

The principal insight to be garnered from these cases is how technology is transforming the world of hospitality. Brand Karma and EnTrip are developing businesses based solely on internet technology, and the number of such firms have mushroomed. VisitBritain.com is an internet website that serves as the primary source of information for prospective travelers to that region, while generating new partners and revenues. Last, the marketing strategy of Tune Hotels is based solely on direct-to-customer internet distribution and email promotion.

A common theme in the cases was the importance of staying focused on the core business. Circos founders, for example, advocated a "laser focus," while Hotels.com executive Martin Allen urged innovators to avoid "scope creep." A single-minded determination will aid innovators in completing development of the final product or service.

All the hospitality trendsetters highlighted in these cases also recognized the worth of developing an innovation that clearly offered customer value. Placing customer needs at the forefront of product or service development and implementation has allowed these firms to prosper. All of these case studies stated or implied that the customer experience, as delivered by the concept and the employee service, is what drove initial consumer visits and what will determine any repeat visits.

Innovators with Hotels.com, EnTrip, and Grandstand noted the significance of having the right people on the

internal team and the right external partners. Appropriately matched associates are those who share the same enthusiasm, motivation, and zeal to work rapidly and in synchronization. Such cohorts will facilitate critical internal and external communication and strongly improve the chances of the innovation succeeding.

The executives interviewed in the case studies also reported their willingness to trust their instincts and the necessity of being flexible. Grandstand emphasized that the idea of a mobile venue evolved and changed rapidly during the development stage. Similarly, Hotels.com's Visualiser was originally designed to be just a short-term promotional tool, but overwhelming positive reaction caused Hotels.com to

rethink the concept and to consider ways to introduce it into other markets.

Finally, although measurement was directly mentioned by just a few innovators, empirical measures must be in place so that innovations can be rigorously assessed. Dubé *et al.* encouraged the development of metrics that link a best practice to the subjective experience of the customer.³⁵ Similar metrics must be forged for innovations. Objective measures of the results produced by innovations allow the organization to be more effective in directing its limited resources. ■

³⁵ Dubé *et al.*, *op.cit.*

APPENDIX A: ON-LINE NOMINATION FORM

Innovations in the Global Hospitality Industry

The Center for Hospitality Research at the Cornell University School of Hotel Administration is conducting an industry-wide study of *Innovations in Global Hospitality*.

Definition: *An innovator...*

is a person or organization that has developed a new or unique practice, or has devised a novel application of an existing practice, such that it has proven to be highly effective and profitable.

Please help us identify innovations in the Global Hospitality Industry. Think about the definition of an innovator given here, and then use the space below to nominate an individual, hotel, or company that you believe is innovative or has developed innovative practices, processes, products, services, or philosophies. You may nominate yourself or your company. Thank you for your participation!

Innovator—Name any company, or individual manager you consider to be an innovator:

Company Name:

Individual or Contact Name

Individual or Contact Phone Number:

What is the innovation? Describe it. Briefly tell us why you nominated this person, hotel, or company:

Your Name: (This information will remain confidential and only used to contact you directly if we have questions about your nomination).

APPENDIX B: CASE INTERVIEW TEMPLATE

- Description:** Provide an overview of the innovation. What? Where? When? (The development process, Steps? Length of time required?) Who? (Source of practice? Development team, leader driven? People affected?) Why? (What motivated the innovation? What were the problems or issues that were catalysts?)
- Execution:** What was the approach for implementation? How was the innovation implemented? What tactics were used to introduce the innovation? (Steps and in what order? Coalition building? Trial? Full adoption? Sustaining practice?) What communication strategies were used for employees, customers? What influence strategies were used? Were new skills needed? How were they developed? Were new resources required or were resources reallocated? What was the cost of implementation? What was the role of new technologies? What obstacles were overcome?
- Outcomes** What are the metrics used to judge success of the innovation? By those metrics, how successful was the innovation? How were results monitored? What have been the benefits of the innovation practice?
- Insights** What are suggestions for implementing the innovative practice? What lessons have been learned? Insights that can be offered? How might the innovation have been accomplished better, faster, cheaper? How might the practice evolve in the future?

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Hospitality Leadership Through Learning



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The Office of Executive Education facilitates interactive learning opportunities where professionals from the global hospitality industry and world-class Cornell faculty explore, develop and apply ideas to advance business and personal success.

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The Professional Development Program (PDP) is a series of three-day courses offered in finance, foodservice, human-resources, operations, marketing, real estate, revenue, and strategic management. Participants agree that Cornell delivers the most regarding experience available to hospitality professionals. Expert faculty and industry professionals lead a program that balances theory and real-world examples.

The General Managers Program

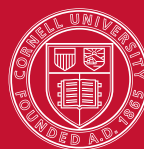
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The Online Path

Online courses are offered for professionals who would like to enhance their knowledge or learn more about a new area of hospitality management, but are unable to get away from the demands of their job. Courses are authored and designed by Cornell University faculty, using the most current and relevant case studies, research and content.

The Custom Path

Many companies see an advantage to having a private program so that company-specific information, objectives, terminology and methods can be addressed precisely. Custom programs are developed from existing curriculum or custom developed in a collaborative process. They are delivered on Cornell's campus or anywhere in the world.



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