

Accor Hospitality: The New Hotel Business Model

2007-10-24

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Accor is holding a two-day event for institutional investors and financial analysts to present the new business model for its Hotels division and measure its impact.

The event is designed to share Accor's strategic vision of its Hotels division, and better understand the different components that constitute "the Right Approach" that will make Accor's Hotels business more profitable, less cyclical and well appreciated by its clients.

Supply and demand: changes in the global marketplace

Between 2006 and 2012, the number of overnight stays in chain hotels is expected to rise by 5.7%* a year, compared with an increase of 3.7%* a year for the market as a whole. To optimize its positioning in an environment shaped by deep-seated change in hotel supply and demand in both mature and emerging markets, Accor has organized its strategy around five priorities:

- Increase market share in the European Midscale segment through a more segmented offering (Suitehotel and Adagio on top of Novotel and Mercure)
- Increase market share in the European Economy segment through a more segmented offering (All Seasons) and in the Budget segment with new-builds (Etap)
- Strengthen Motel 6's position in North America through franchise contracts by capitalizing on a new room concept and building
- Grow Accor's footprint in emerging countries, where demand for standardized products is rapidly increasing, with Ibis in the Economy segment and Novotel in the Midscale segment
- Reposition and segment the Upscale (Pullman) and Luxury (Sofitel) brands worldwide in order to cover more fragmented demand for products and services.

*Source: Estin & Co

To achieve these goals, five levers drive the "Right Approach":

- Align the brand portfolio with customer expectations (The Right Brands)
- Redefine the networks around this brand portfolio (The Right Network)
- Improve hotel operating performance in the reconfigured business base (The Right Operating Performance)
- Adapt hotel operating structures to improve return on capital employed and reduce cash-flow volatility (The Right Asset Management)
- Shift the corporate culture to deliver the best value-added services to hotel owners (The Right Service Provider).

The Right Brands

To become the leader in the Economy and Midscale hotel segments and a major player in the Luxury segment around the world, Accor has redefined and expanded its brand portfolio to cover all segments—from Budget to Luxury—with an offering of standardized and non-standardized products designed to satisfy increasingly fragmented demand.

This year has seen the launch of two new brands: All Seasons in the non-standardized Economy segment and Pullman in the Upscale segment. At the same time, Sofitel is being repositioned in the Luxury segment, leveraging on its know-how and "French Touch" elegance, with the goal of meeting demand from a growing international clientele, in particular from emerging countries.

Alongside these measures to create and reposition brands, Accor is leveraging technological innovations and new product design to maintain its leadership in its traditional brands. It is launching a new Formule 1 room in France in 2007 and will roll out new room designs for the Suitehotel, Ibis, Etap Hotel brands and for Motel 6 in the United States in 2008. The Novotel and Mercure service portfolios are also being developed to enable the chains to maintain their competitive advantages.

The Right Network

Accor intends to expand its network to a total of 5,000 hotels by 2010.

The current network, which will comprise more than 4,000 hotels by year-end 2007, will be optimized through divestments, re-brandings and renovations, and revitalized with the addition of more than 1,500 hotels over the period 2007-2010.

This optimization process is expected to:

- Increase average room rates at Sofitel (from EUR111 to EUR172 on a worldwide basis by 2010) and at Pullman (to EUR130). An estimated EUR35 million marketing investment will be committed to market the two brands over the next three years.
- Improve return on capital employed through renovation programs. The Novotel renovation program in France is expected to generate a ROCE of 13% to 16%.
- Improve profitability by divesting underperforming assets (a total of 129 hotels by 2008).

In Germany, for example, profit before tax will total EUR31 million in 2007, compared with a EUR15-million loss in 2003. This represents an improvement of EUR46 million, of which EUR15 million resulted from the initiatives linked to the reconfiguration of 85 hotels over the period.

The Right Operating Performance

Reflecting the impact of the top-line initiatives, Accor hotels have outperformed the competition in revenue growth over the past two years, by 0.7 points for the French market-leading Ibis and Etap Hotel brands and by 2.5 points for Novotel and Mercure.

To optimize costs, a number of action plans have been deployed to improve operating conditions. These actions are intended in particular to drive a EUR65-million improvement in profit before tax at Group level by 2010 through more efficient purchasing management.

In France, the battle for the top line and cost-saving initiatives are expected to generate profit before tax of EUR261 million in 2007, a 28% increase over the previous year.

The Right Asset Management

Accor is pursuing the asset-right policy launched in 2005 to improve return on capital employed and reduce cash flow volatility by adapting hotel operating structures to each segment's profitability profile. In addition to the program to modify the management structure of 350 hotels by the end of 2008, some 600 hotels could change their operating structure in 2009 and 2010. Among them are 400 Motel 6 properties in the United States, which are expected to improve their return on capital employed by four points by 2010 and to increase their EBITDAR margin by three points (excluding the impact of the hotel cycle).

Once these programs to adapt hotel operating structures have been completed at year-end 2010, 77% of the current portfolio (excluding new expansion properties) will be operated under management contracts, franchise agreements or variable-rent leases.

The Right Service Provider

The hotel management expertise developed by Accor over the past 40 years is now being offered to hotel owners through a change in corporate culture. The high value-added skills and services provided by Accor via its eight expertise platforms (Portals and Brand Websites, Technological Support, Marketing and Sales, Management and Finance, Purchasing, Human Resources and Training, Expansion, Construction and Maintenance) are designed to support the rapid, efficient development of its hotel network through franchise agreements and management contracts, both in France and around the world. To implement the sense of Luxury and turn its know-how in a professional manner, Sofitel put in place a dedicated worldwide organization around five geographical areas.

The new business model's impact on the Group's margins

The impact of these action plans on margins could result in:

- A 3-point improvement in operating margin, excluding the impact of fluctuations in the business cycle
- A 3.6-point improvement in return on capital employed, excluding cyclical effects
- A 45% reduction in EBIT volatility compared to the last cycle.

Accor, the European leader and a major global group in hotels, the global leader in services to corporate clients and public institutions, operates in nearly 100 countries with 170,000 employees. It offers to its clients over 40 years of expertise in its two core businesses:

- - Hotels, with the Sofitel, Pullman, Novotel, Mercure, Suitehotel, Ibis, All Seasons, Etap Hotel, Formule 1 and Motel 6 brands, representing more than 4,000 hotels and nearly 500,000 rooms in 90 countries, as well as strategically related activities, such as Lenotre.
- - Services, with 23 million people in nearly 40 countries benefiting from Accor Services products in human resources, marketing services and expense management.

Source: Accor

This article comes from Hotel News Resource

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