

Four seasons case study

Business



Four Seasons Hotels and Resorts Activities Four Seasons is a Canadian-based company that manages an international portfolio of luxury five-star hotels and resorts. The brand which has become a byword for comfort and service started out with a modest motel in Toronto. The turning point came 10 years later in 1970, when the group opened its first overseas hotel in London. The success of this hotel set the future course for the company. It prompted a shift in focus towards medium-sized properties of exceptional quality offering personalised service around the clock.

In the early 1990s, a second shift in focus saw Four Seasons start to move from hotel ownership towards management contracts. The group has three main business divisions:

- Four Seasons Hotels and Resorts: five-star hotels in major city centres and resort destinations
- Four Seasons Residential Properties: luxury serviced homes
- Four Seasons Residence Clubs: luxury timeshare properties

Company Perspectives: We have chosen to specialize within the hospitality industry, by offering only experiences of exceptional quality.

Our objective is to be recognized as the company that manages the finest hotels, resorts and resort clubs wherever we locate. We create properties of enduring value using superior design and finishes, and support them with a deeply instilled ethic of personal service. Doing so allows Four Seasons to satisfy the needs and tastes of our discriminating customers, and to maintain our position as the world's premiere luxury hospitality company. History Four Seasons Hotels Inc.

is one of the world's leading hotel management companies specializing in luxury and resort properties.

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The company manages over 40 hotels and resorts in North America, Europe, Asia, the Middle East, Australia and the Caribbean, with an additional approximately 20 more under construction as of 1998. The company owns its own hotels, principally under the Four Seasons and Regent names, as well as some others, including the Ritz-Carlton in Chicago and the Pierre in New York. About half the company's earnings come from management fees, and half from properties it owns directly. Humble Beginnings Four Seasons Hotels was founded by Isadore "Issy" Sharp.

Sharp's father, Max, emigrated from Poland to Palestine in 1920, where he helped build one of the first kibbutzim.

Relocating to Toronto five years later, Max worked for a few years as a journeyman plasterer; he married and began a family that would include his son Issy and three daughters. Drawing on his home renovation experience, Max Sharp soon began purchasing houses, repairing and decorating them, and then selling them at a profit. Issy Sharp had lived in 15 houses by the time he was 16 years old. Sharp attended Toronto's Ryerson Polytechnical Institute and won high marks in architecture while distinguishing himself in athletics.

After graduating, he worked alongside his father building small apartment buildings and houses.

Determined to build a hotel on his own, Sharp struggled for five years to find the money in order to fulfill his dream. Unable to convince banks and venture capitalists that his hotel would succeed, Sharp finally turned to his brother-in-law, Eddie Creed, owner of a high fashion emporium in Toronto,

and Creed's best friend, Murray Koffler, founder and chair of the Shoppers Drug Mart chain. These two men contributed \$150, 000 each to Sharp's project.

Still requiring over \$700, 000 in capital, Sharp approached one of his father's business acquaintances, Cecil Forsyth, who managed the mortgage department at Great West Life Insurance Company. Sharp's plan was to raise the rest of the necessary funds through a mortgage. Skeptical of Sharp's business acumen, Forsyth initially refused the application.

However, he eventually yielded to Sharp's persistent requests, agreeing to provide the rest of the money. Sharp's hotel cost nearly \$1. 5 million to establish and featured 126 rooms that would garner premium prices.

Opening on the first day of spring in 1961, the Four Seasons Motor Hotel was an immediate success. Despite the hotel's location in a downtown Toronto area known for its prostitutes and indigent population, patrons were attracted to the structure's casual but upscale atmosphere, as well as its innovative inner courtyard surrounding a swimming pool. Soon the employees of the Canadian Broadcast System, located across the street, adopted the hotel as their after work watering hole, signalling the beginning of the hotel's celebrity association.

From the time the Four Seasons opened for business, Sharp created a climate that fostered professionalism and devotion among his employees. He initiated a profit-sharing plan, scheduled two " stress breaks" every day, and paid his front desk clerks twice the average rate, asserting their importance in providing the public with its first impression of the hotel. One of the more

notable examples of employee dedication involved Roy Dymont, a bellboy at Four Seasons since 1967. Dymont discovered that a dignitary had left his briefcase behind after checking out, and he felt responsible since he hadn't placed the briefcase in the limousine trunk.

When the worried guest phoned from Washington, stating that the material in the briefcase was essential for an upcoming meeting, Dymont purchased a plane ticket at his own expense and delivered the briefcase personally. Sharp's second venture in the hotel business proved even riskier than his first.

Launched in 1963, Toronto's Inn on the Park was built on 17 acres in a desolate area north of the city, where the only nearby business was a large garbage dump. Short \$1 million before the start of construction, Sharp and his father again approached the obdurate Cecil Forsyth, this time for a loan.

Forsyth, impressed by Sharp's instant success with the motor hotel, didn't hesitate in providing the money. Despite its location, Sharp's second hotel was also successful, and the area he had chosen for the 569-room resort hotel quickly grew into a sprawling corporate suburbia. Growth Abroad in the 1970s Next, Sharp sought to establish a hotel overlooking London's historic Hyde Park. In doing so, he ignored market research indicating that a new luxury hotel in that location would have trouble competing with such established first class hotels as the Dorchester, Claridge, and Savoy.

Sharp opened his 227-room Inn on the Park in 1970. Despite its higher rates and the overcrowded market, the Inn on the Park enjoyed a 95 percent occupancy rate and became one of the most profitable hotels in the world.

Its small size, luxurious appointments, and impeccable service were all elements that had become Sharp's personal trademark. In the early 1970s, Sharp began developing hotels in smaller, less urban areas. He opened an inn in Belleville, Ontario, whose population was 35, 000, and spent a year operating a resort in Nassau.

Shortly thereafter, he built a luxury condo hotel in Israel that was marginally profitable but experienced difficulties maintaining staff, owing largely to the Israeli draft for military service.

Plans for hotel projects in Europe were postponed due to disagreements with potential partners from Paris and Athens; when construction finally started on a hotel in Rome, workers kept uncovering Roman artifacts, and preservationists were able to block further construction on the site.

Hoping to develop residential and office buildings in both Canada and Florida, Sharp was continually thwarted by civic officials, who placed restrictions on commercial development. Undismayed by his setbacks, in 1972 Sharp approached the Sheraton division of ITT Corporation and proposed a joint Four Seasons-Sheraton partnership. The result was the Toronto Four-Seasons Sheraton, a 1, 450-room establishment whose first year of operation was plagued by cost overruns, disagreements with city building inspectors, and a singles event which resulted in a temporary suspension of the hotel's liquor license.

Although Sharp was hired as assistant manager of the property, he had no real authority to make decisions. In 1976, he finally sold his 49 percent interest for \$18.

5 million and decided to return to what he did best: developing and operating mid-sized hotels that catered to the luxury market. That year Sharp purchased his first American property, The Clift, an elegant but aging hotel in San Francisco. Moreover, he opened the Four Seasons Hotel in Vancouver, and, one year later, won a bidding war to manage the new Ritz-Carlton in Chicago.

In 1978, Sharp bought a property from Hyatt Hotels in Toronto and remodeled it to suit the Four Seasons style. This Four Seasons Hotel offered service to the wealthy, who frequented Yorkville, Toronto's most exclusive shopping district.

In 1979, the Four Seasons Hotel in Washington began operations, and a short time later Sharp opened the first of several hotel and resort properties in Texas. One of Sharp's most successful moves came in 1981 with The Pierre, a landmark hotel in New York frequently cited as one of the best in the city.

With a multimillion dollar renovation, The Pierre developed into a showcase of Four Seasons' style and service. Financial Ups and Downs in the 1980s Many hoteliers, Sharp included, followed Conrad Hilton's strategy of managing properties rather than owning them. From 1980 to 1985, Four Seasons opened hotels with a value of over \$500 million at a cost of only \$15 million.

Nevertheless, Four Seasons also owned many properties, and in the early 1980s Sharp initiated an expensive renovation drive of the hotels in which it was owner or part-owner.

By 1982, the hotel chain had approximated \$116 million in long-term debt. In order to lessen this debt, Four Seasons began selling its assets. Between 1980 and 1985, nearly \$31.2 million worth of assets were sold, including equity in Montreal, Toronto, and San Francisco. Nevertheless, Four Seasons continued to manage these hotels under long-term contracts.

When Sharp, Creed, and Koffler, the three original investors, created a new company to manage such non-hotel assets as development property and a laundry, another \$22 million in debt was eliminated.

The company's final tactic was to apply \$30 million of an initial \$60 million raised from a stock offering to reducing the remainder of the debt. Through these three moves, Four Seasons' debt-equity ratio was reduced to a comfortable 1:1 ratio by 1986. When Four Seasons first publicly issued shares in the company in 1969, stock shares climbed as high as \$22. However, after the erratic management and declining profits of the early and mid-1970s, Four Seasons stock had plummeted to only four dollars per share by 1977.

Sharp and his partners then decided that it was in their best interest to turn Four Seasons into a private company. In 1985, when they decided to take Four Seasons public again, both Creed and Koffler retained an eight percent stake in the company but sold \$8.5 million worth of stock. Sharp agreed to the public offering on the condition that a class of "multiple voting shares" be created for him. As a result of this arrangement, Sharp tightened his grip on Four Seasons; while the public had one vote for each share, Sharp's multiple voting shares carried 12 votes for each share.

With a 29 percent share of Four Seasons equity and 83 percent of the votes, Sharp planned to thwart any takeover threat in the future.

Rapid Growth into the 1990s During the late 1980s, Four Seasons began examining the world's financial centers, such as Tokyo, Paris, and Frankfurt, for future development sites. Expansion proceeded slowly as Sharp wanted only premium locations and refused to settle for less. From 1988 onward however, the acquisition, development, and building of properties was rapid.

By 1992, with the acquisition of Regent International Hotels Limited, a leading operator of luxury hotels in Asia and Australia, Sharp had created the largest network of luxury hotels in the world. Together Four Seasons and Regent International Hotels owned and operated 45 medium-sized luxury properties and resorts in 19 countries around the world. In 1992 and 1993, Four Seasons opened hotels in Bali, Milan, and London.

New construction and development was ongoing in Singapore, New York, Mexico City, Paris, Berlin, Jakarta, and Prague, and resort properties were under development in Hawaii and California.

With a one-to-one employee-guest ratio, gourmet cuisine, and sumptuous decor resulting in accolades from such diverse publications as Consumer Reports, Mobil Travel Guide, and Conde Nast Traveler Magazine, Sharp nevertheless strove to improve his properties. His goal was to transform the name Four Seasons into a common phrase for high-quality hotels, and, during the early 1990s, he believed this goal was well within his reach. Nevertheless, the company was plagued by debt, leading almost to paralysis in the mid-1990s.

A downturn that struck the hotel industry from 1990 to 1992 had made the company turn more to management at that time, because it was both more profitable and more stable in the long run than owning hotels.

The chain typically bought a small equity stake in hotels it hoped to manage, however, as a way of opening the door to a successful management contract. Because of its debt burden, the company had been kept from bidding on some of the hotels it wanted to control. By 1994 it had 15 contracts under negotiation, and a company analyst expected Four Seasons to win just five of them.

To the rescue came an outside investor, the Saudi Prince Al-Waleed Bin Tala Bin Abdulfaziz al Saud. He bought up 25 percent of the company's stock in 1994, and set aside C\$100 million to fund further expansion of the chain.

Al-Waleed was an international investor who had previously bailed out EuroDisneySCA, the floundering French Disneyland. The prince was reportedly impressed with the Four Seasons brand and service, and wanted to provide financial backing for long-term growth. With Al-Waleed's deep pockets, the company was able to complete its bids on management properties, and soon Four Seasons began building and buying worldwide.

Another mid-1990s development was the teaming up with Carlson Hospitality Worldwide, a Minnesota-based hotel management company. Carlson was known for its formidable development of mid-priced hotels and restaurants.

It had brokered deals for more than 1, 000 hotels and restaurants around the globe, which it managed through franchise and partnership agreements.

Four Seasons entered a joint agreement with Carlson to develop its Regent brand of hotels. Four Seasons ran only nine Regents, which were revered in Asia, though there was only one in North America, in Beverly Hills.

The company wanted to expand the brand, and turned to Carlson to manage this project. Four Seasons finished 1995 in the red, losing a reported \$74.

6 million, but Moody's upgraded its debt in 1996, and the company was clearly on the mend. By 1997, Business Week declared that the company had never been healthier. Sales and profits were on the rise, and Four Seasons planned to run almost 20 more hotels over the next few years. Al-Waleed had helped the company get into lucrative Middle Eastern markets, and the chain also angled for properties in Paris, Las Vegas, and Caracas.

Moreover, the luxury hotel industry in general had picked up remarkably from its early-1990s slump, and occupancy rates at some prime Four Seasons hotels were running better than 90 percent.

The company continued to impress clients with its dedication to service, and stories abounded of dedicated employees going the limit to please. The chain was preferred by many famous people, from rock stars to politicians. While a sudden economic downturn in Asia in 1998 sent Four Season's Asian earnings way down, the hotels in the rest of the world seemed in fine condition, with average revenues per room rate rising significantly.

The company was profitable and prospering despite the shock to its Asian markets, and its long-term goals centered on building its reputation worldwide through dedication to customer service. This was an area in which Four Seasons had always excelled. Into the next century the company hoped

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to build on its reputation for luxury and service, casting the Four Seasons name as a brand that signified excellence.

Timeline • 1960: Isadore Sharp, who graduated as an architect and started his career in the construction industry with his father Max, founds Four Seasons Hotels. March 1961: Sharp builds and opens his first hotel, the modest Four Seasons Motor hotel on Jarvis Street in downtown Toronto. The property is leased to another operator in 1977. • January 1970: The group makes its first move overseas move when it opens its fourth hotel, Inn on the Park, in London, which becomes the Four Seasons Hotel London. Its success prompts Sharp to refocus the company on medium-sized hotels of exceptional quality and service.

The group sells its 50% interest in the property in 1988 but retains the management contract. • February 1986: Four Seasons floats on the Toronto Stock Exchange. February 1990: The group's first resort, the Four Seasons Resort Maui in Wailea, opens. In the early part of the decade, the group starts to shift its focus from hotel ownership to hotel management. • August 1992: Four Seasons buys Regent International Hotels, which has 10 hotels hotels in Auckland, Bangkok, Beverly Hills, Fiji, Hong Kong, Kuala Lumpur, Melbourne, Singapore, Sydney and Taipei. • 1993: Four Seasons opens the Regent hotel in London but discontinues its management in 1995.

• November 1994: Saudi billionaire Prince Alwaleed Bin Talal makes his first investment in Four Seasons. February 1997: Four Seasons is listed on the New York Stock Exchange and launches the Four Seasons Residential Properties arm. • November 1997: Four Seasons sells Regent International to

Carlson Hospitality Worldwide. It continues to manage some of the hotels. •

December 1999: The group opens the Four Seasons Hotel Canary Wharf in London's redeveloped docklands.

- September 2000: Prince Alwaleed Bin Talal pays US\$165m (? 78m) for a 25% stake in Four Seasons, two months after he acquires a 50% stake in Fairmont. The prince provides another US\$100m (? 47m) to finance expansion. August 2000: The developers behind the new Four Seasons Hotel Dublin go into receivership. • February 2001: The Four Seasons Hotel Dublin opens, almost a year later than planned and just one month after it is bought out of receivership by local property investor Derek Quinlan. • February 2005: The Four Seasons Hotel Hampshire opens in Hook. • June 2005: Capitaland, owner of the Canary Wharf hotel in London, puts the property on the market for a rumoured ? 55m.

Four Seasons is to continue managing the property after a sale under a 50-year management contract. January 2006: The group opens its first tented hotel, the Four Seasons Tented Camp Golden Triangle, in northern Thailand. It comprises 15 luxury air-conditioned tents. Financial snapshot Full Year Consolidated revenues: US\$339. 8m* (2003: US\$313m) Pre-tax earnings: US\$49.

5m (2003: US\$12m) * 64% of turnover comes from management operations and 37% from ownership and corporate operations Half Year Consolidated revenues: US\$137. 6m (2004: US\$128. 5m) Pre-tax earnings: US\$16. 9m (2004: US\$27. 6m) Financial year end: 31 December 2004 Half year end: 30 June 2005

Principal Subsidiaries: Four Seasons Hotels Limited; Four Seasons Resorts B. V.

(Netherlands); Four Seasons Hotel Berlin GmbH (Germany); Four Seasons Hotels (Barbados) Ltd. ; FSR International Hotels Limited (Hong Kong); Eurasia Hotel Limited (Hong Kong; 25%). Operating data Operating figures for the half-year to 30 June 2005: Worldwide occupancy: 69. 2% (2005: 65. 2%) Worldwide average daily rate: US\$349 (US\$327) Worldwide revenue per available room: US\$228 (2004: US\$201) European occupancy: 62. 2% (2004: 64%) European average daily rate: US\$ 533 (2004: US\$503) European revenue per available room: US\$348 (2004: US\$331)

Number of hotels: 69 hotels in 31 countries, including 13 resorts Number of bedrooms: 17, 311 bedrooms Total number of employees: 31, 633 Number of employees in the UK and Ireland: 1, 078 (Dublin – 449, London – 325, Canary Wharf – 204, Hampshire – 100) The group also manages four Regent hotels: in Los Angeles (The Regent Beverly Wilshire), Singapore (The Regent Singapore and The Regent Kuala Lumpur)) and Taiwan (Grand Formosa Regent, Taipei) The group has 12 properties in Europe, including four in the UK and Ireland and hotels in Budapest, Geneva, Istanbul, Lisbon, Milan, Paris, Prague and Provence.

The hotels in Dublin, Budapest, Milan and Prague are owned by Irish property investor Derek Quinlan whose Quinlan Private also owns the Maybourne Group (formerly the Savoy Group). Strategy “ Our goal is to grow by five to seven new properties per year. ” Source: Four Seasons annual report for 2004 Chief executive Isadore Sharp Key directors Chairman: Isadore Sharp

President, worldwide business operations: Kathleen Taylor President, worldwide hotel operations: Wolf Hengst

Chief financial officer and executive vice-president: John Davison President, hotel operations, Europe, Middle East and Africa (EMEA): Antoine Corinthios

Senior vice-president, food and beverage: Alfons Konrad Senior vice-president, rooms: Ivan Goh Vice-president, sales and marketing, EMEA:

David Crowl Regional vice-president and general manager: John Stauss

Additional Details • Public Company • Incorporated: 1961 • Employees: 22,000 • Sales: C\$248.8 million (US\$160.7 million) (1998) • Stock Exchanges:

Toronto Montreal New York • Ticker Symbol: FS • NAIC: 72111 Hotels (Except Casino Hotels) & Motel Website: <http://www.fourseasons.com>

[fourseasons.com](http://www.fourseasons.com)