

Strategically evaluate the accor expansion plan tourism essay



The author has to strategically evaluate Accors expansion plan of adding 10,000 rooms per annum in total during two years (2007-2008) in both established market chosen as United States of America and emerging market chosen as China. The author will also review the marketing, financial strategies that Accor has adopted in these markets till now and then suggest future strategies to expand in these markets. The author will also be suggesting about the brand that Accor should look forward to expand.

Accor is a large French multinational corporation operating in nearly 90 countries and Accor Hospitality, the Accor hotels branch, has more than 4,000 hotels worldwide. It starts from the most luxurious hotels to the most economic lodging solution. Under its belt there are brands like sofitel, novotel, mercure, ibis, red roof inns, etap, motel 6, studio 6 and formule 1. The group is looking to expand its hotel business in an established (USA) and establishing (China) market by adding 20,000 rooms over the period of two years. The author has to strategically evaluate and make suggestions to the group.

With a corporate representation throughout the world, Accor Hotels have become one of the largest players in the industry. It is an intricate organisation with multiple brands and qualifications of hotels, as well as supplementary products and services. Accor finds it important to incorporate the small and medium-sized hotels in managing customers' needs and requests as they are the direct link to the customers.

Accor is a large French multinational corporation operating in nearly 90 countries. Accor is the European leader in hotels (Accor Hospitality) and a

global leader in corporate services (Accor Services). Accor Hospitality, the Accor hotels branch, has more than 4, 000 hotels worldwide. It starts from the most luxurious hotels to the most economic lodging solution.

(Reference: <http://www.fundinguniverse.com>)

Aims & Objectives: This report aims to develop international expansion plans for Accor in established and emerging market in the given span of time during the year 2007-2008. The objective is to provide rationale for the selection of markets, and propose branding, finance, and marketing strategy to the Board of ACCOR to add an additional 10, 000 rooms per annum across both established markets (Europe, including France and North America) and other areas of the world (Latin America, Africa, Middle East and Asia/Pacific).

Research Methodology: This report is based on the case study for the ACCOR group of hotels which is from the module study guide and is a piece of research by the “ The Centre for Hospitality Research at Cornell University”. The various secondary sources accessed have been as following: internet, journals, professional reports, government reports and others to produce data for the targeted markets.

In 1967 Gérard Pelisson and Paul Dubrule opened their first Novotel hotel on a roadside near Lille in northern France. Travel was booming in France in the 1960s and the hotel industry had not yet expanded to meet the demand. French hotels, in general, were either rural inns or luxury hotels in city centers. Dubrule decided to build American-style highway hotels in the medium price range and collaborated with Pelisson, a former head of market research at IBM-Europe. Through Pelisson’s connections the partners were <https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

able to secure a bank loan, and the Novotel firm was launched. The company's ensuing success was in large part due to its being first to break into the unexploited European market for highway lodging. Each Novotel provided standardized rooms, ample parking facilities, and restaurants featuring local cuisine. Soon Novotels also were established at airports and popular vacation sites, such as the seaside and mountain areas.

The acquisition of the Mercure hotel chain in 1975 pushed the company into metropolitan areas and the business traveler market, and these hotels varied according to regional demands in style, character, and restaurant offerings. By the end of the 1970s Novotel had become the premier hotel chain in Europe with 240 establishments in Europe, Africa, South America, and the Far East.

Accor's brand worldwide

Formule1

Lowest rates on the market.

Functional room for one,

Two or three people.

All-you-can-eat breakfast buffet.

Round-the-clock check-in.

Etap

Pleasant convenient room for one, two or three people.

Budget price.

All-you-can-eat breakfast buffet.

Round-the-clock check-in.

Motel 6

The lowest price of any national chain.

Red Roof Inn

Renovated product.

Low rates.

Comfortable beds.

RediCard Preferred

Member loyalty program.

Ibis

Simple, reliable pricing policy.

Always very well situated, in city centres, close to airports or near major tourist or business areas.

Service quality (ISO 9001 certification and 15-minute satisfaction guarantee).

Environmentally friendly waste, water and energy management systems.

Teams on duty around the clock.

Breakfast served from 4: 00 a. m. to noon.

Hot snacks available at any time.

Mercure

Shared values, such as a strong regional focus, a unique personality and an exceptional wine list.

For business and leisure stays, in city centres, at the seaside or in the mountains.

Novotel

Open spaces featuring contemporary design, for rest and relaxation.

Bright, spacious, pleasant rooms where guests can work or unwind in a comfortable setting.

Customers can eat whatever, whenever and wherever they want.

Offers adapted to the needs of all travellers.

Suite Hotel

Innovative, modern concept.

30-square-meter modular suites.

With Boutique Gourmand, food can be purchased around the clock in the hotel lobby.

Free relaxing massage every Thursday evening.

The longer the stay, the lower the price.

Smart cars made available free-of-charge to medium-stay customers.

Sofitel

Prime locations in leading business centres and resorts.

Each hotel is unique in its design, architecture and culture.

Sofitel's exclusive MyBed concept, the guarantee of a good night's sleep.

Restaurants offering innovative, contemporary cuisine that surprises diners, awakening their senses and stirring their emotions.

Hotel Distribution Worldwide

Accor has its 4, 000 hotels in 90 countries. It has its presence all seven continents and in all major cities. (Reference: [www. accorhotels. com](http://www.accorhotels.com))

Europe

Africa

Asia

Australia

North America

Andorra

Algeria

Cambodia

Australia

<https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

Canada

Austria

Benin

China

Fiji Islands

Mexico

Belgium

Burkina Faso

India

French Polynesia

USA

Bulgaria

Burundi

Indonesia

New Zealand

Cyprus

Cameroun

Japan

Norfolk Island

Czech Republic

Chad

Laos

France

Egypt

Malaysia

Germany

Equatorial Guinea

Philippines

Greece

Gabon

Singapore

Hungary

Ghana

South Korea

Ireland

Guinea

Thailand

Italy

Ivory Coast

Vietnam

Lithuania

Mauritania

Luxembourg

Mauritius

Monaco

Morocco

Netherlands

Nigeria

Poland

Reunion

Portugal

Rwanda

Romania

Senegal

Russia

South Africa

Spain

Tunisia

Development strategy

Accor's hotel business has continued its sustained pace of development.

Most importantly, they devised a new, more efficient business model based on two foundations:

Stronger brands those are now more visible, more attractive and more strategically aligned.

An “ asset right” real estate strategy, which consists of adapting operating structures to the profile of each country and market segment.

Pelisson and Dubrule developed their expanding company with a decentralized management and a unique dual chairmanship. Although to comply with French law the partners took turns holding the official position of chairman, they made all decisions jointly and shared responsibilities, immersing themselves in all aspects of the business. The company's

specialty became variety, providing hotel chains to fit every need. In 1973 Sphere S. A. was created as a holding company for a new chain of two-star, no-frills hotels, called Ibis; the first Ibis was opened the following year. During this time, the company also acquired Courte Paille, a chain of roadside steakhouses founded in 1961, which reflected many of the same priorities as Novotel: practicality, easy parking, consistent quality, and quick service.

(Reference: <http://www.fundinguniverse.com>)

Accor expanded at a far swifter rate than its international rivals, becoming the largest operator in Europe. It led the market in France and West Germany, and expanded in the medium and economy range in Spain, Italy, and Britain with its \$75 million investment budget. The company's European base provided three-quarters of its revenue, with more than half coming from hotels and the rest from its foodservices.

(Reference: <http://www.fundinguniverse.com>)

In 1997, Dubrule and Pelisson decided to retire from active management and were succeeded by Jean-Marc Espalioux. Espalioux's new management team focussed on relocating Accor's cash. In an effort, to deleverage themselves and free resources to provide for expansion, Accor disposed of €3 billion of real estate assets as part of a sale and leaseback programme.

(Reference: <http://www.fundinguniverse.com>)

Business Mix

Accor S. A. operates in hotels and services sector worldwide. It provides luxury and upscale, midscale, and economy hotel services. It also designs, develops, and manages prepaid solutions, including food vouchers, welfare and assistance programs, family assistance solutions, gift vouchers and cards, loyalty programs and incentive campaigns, and expense management services to corporate clients and public institutions. In addition, the company operates restaurants and casinos, as well as provides onboard train services to the railway sector. Accor was incorporated in 1960 and is headquartered in Evry, France.

Financial Performance

Profit before tax rose to €727 million in 2005, an all-time record, and the Group's balance sheet was more solid than ever. Based on these results, shareholders will be asked to approve an ordinary dividend of €1.45 per share, a 26.1% increase, plus an exceptional dividend of €1.50 per share, representing a total payout of €320 million. This dividend policy is accompanied by a share buyback program that has had a positive effect on earnings per share. (Reference: www.accorhotels.com)

Accor's 2006 results were excellent, as can be seen in three key figures:

- Revenue rose by 6.6%, the biggest increase since 1998.
- Profit before tax rose by 28% to €727 million, a record.
- EBITDAR margin, at 27.4%, was our highest ever.

These figures prove that Accor is developing fast and enjoying very good financial health, as illustrated by their low level of debt. Another reason for satisfaction is that these improved results concern both the Services and the Hotels businesses. For the year, revenue was up 15.5% in Services and 6.1% in Hotels. And, if 2006 was a very good year, the outlook for 2007 is also very encouraging. With the two businesses' growth potential, the economic turnaround (especially in Europe with the upturn in the hotel cycle) and the emerging markets of China and India, they have every reason to be optimistic. For 2007, Accor is on track to step up the pace of growth, with the goal of adding 200,000 rooms by 2008. (Reference: www.accorhotels.com)

Strategy

Very quickly too, it became apparent that there was a need for a clearer strategy that would enable the Group to more accurately identify its development priorities and, more importantly, focus its managerial and financial resources. In addition to this two-pronged strategic shift, senior management, under the leadership of Gilles Pélisson, outlined a sustained expansion strategy combining acquisitions, notably in the Services business, and stepped up organic growth in the Hotels business with the opening of 200,000 new rooms between 2006 and 2010, especially in China, India and other fast-growing regions. Redefining the market positioning of the brands also made it necessary to reposition the Sofitel brand and create a new non-standardized banner in the economy segment, All Seasons. The brand strategy has led to a shift away from the Accor corporate banner toward the operating brands.

Accor focuses repeatedly on a specific vision for growth and believes in sustainable, profitable growth through three pillars:

A geographically and structurally balanced portfolio

A disciplined, and results-oriented management of resources and assets

A set of powerful, aligned brands

(Ref: case study)

“ The Right Approach” became Accor’s strategic vision of its Hotels division focussed on making Accor’s Hotels business more profitable, less cyclical and well appreciated by its clients:

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).

Ownership Structure

For the lower and mid segment hotels Accor can consider giving franchises or entering in joint ventures. However, for the high end segment hotels like Sofitel and Novotel, Accor should maintain ownership approach as these properties have higher profit sensitivity. In 2003, Accor opened 10 new properties under these brands, and they owned or leased these new properties.

Accor should have less capital-intensive operating structures, which is a key to their success, especially in economically sensitive countries. While Accor owns and leases some properties, they also look to management contracts and franchising.

(Reference: case study)

Developed Market

For the developed market the author has chosen three developed markets from which one will be shortlisted after the analyses. The author has chosen UK, France and USA as its markets for analysis. Accor has great presence in all the three markets.

Accor has 125 hotels in UK mainly in the mid-segment. The demand for mid-segment hotels in the UK is strong and most of the Accor hotels are doing well. However, UK is not a big market compared to the US for Accor. Accor already has a good presence in the European market and hence there is limited scope of expansion. Similarly, in France Accor have a staggering number of hotels and resorts in all segments. It also has a lot of services in

France. It has its strongest presence in France considering the size of France to the UK and the US. Accor already has a very good presence in France in all the segments. Hence it has little scope for growth. In the USA, Accor has motel 6 and studio 6. It is also present in the upscale market. However, it still has a large scope for expansion in all the segments as the US market is so vast and diverse. Therefore, in the developed markets, the author has shortlisted the US market for the addition of 10, 000 rooms in the year 2007-08.

Developing Market

Like the developed market the author will choose three developing markets and shortlist one of them for the analysis. The developing markets are India, China and South Korea. South Korea is relatively a small country and the economic growth is not impressive enough for Accor to add 10, 000 rooms in this market. Accor entered the Indian market in the early 80's and failed miserably. Accor has few operational hotels in India mainly business hotels. However, the political system in India is somewhat chaotic as compared to China. The third market chosen is China. China is a huge country in terms of land and is the fastest growing economy in the world. It has a stable government and its foreign policies towards the hospitality industry are very friendly. Therefore, the author has shortlisted China as its developing market.

ESTABLISHED MARKET (USA)

Rationale

The United States of America (commonly referred to as the United States, the U. S., the USA, or America) is a federal constitutional republic comprising fifty states and a federal district. At 3. 79 million square miles (9. 83 million km²) and with about 305 million people, the United States is the third largest country by total area and third largest by land area and by population. The United States is one of the world's most ethnically diverse and multicultural nations, the product of large-scale immigration from many countries. The U. S. economy is the largest national economy in the world, with an estimated gross domestic product (GDP) of US\$14. 3 trillion (23% of the world total based on nominal GDP and almost 21% at purchasing power parity).

(Reference: <http://www. wikipedia. com>)

Geographical Location

North America is the northern continent of the Americas, situated in the Earth's northern hemisphere and almost totally in the western hemisphere. It is bordered on the north by the Arctic Ocean, on the east by the North Atlantic Ocean, on the southeast by the Caribbean Sea, and on the south and west by the North Pacific Ocean; South America lies to the southeast. North America covers an area of about 24, 709, 000 square kilometres (9, 540, 000 square miles), about 4. 8% of the planet's surface or about 16. 5% of its land area. As of July 2008, its population was estimated at nearly 529 million people. It is the third-largest continent in area,

<https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

following Asia and Africa, and the fourth in population after Asia, Africa, and Europe. (Reference: <http://www.wikipedia.com>)

PESTLE Analysis

Political

A seldom-stated fact of life is that without political stability it is impossible to have economic progress. Until a nation has a stable political system in place, it is impossible for people to plan their lives, conduct business successfully and go about their daily routines with any hope for the future. The United States has enjoyed 135 years of political stability since the end of the Civil War. The United States is the oldest democratic republic. This is an incredible accomplishment. It is amazing that no other country has been able to copy the American system of government successfully. It is as if that system is uniquely suited to that single country. (Reference: <http://www.wikipedia.com>)

With mass manufacturing long gone from America, hospitality industry is one of the key generators of revenue. Hence the American government has given some concessions for the development and growth of the industry:

Grant of Infrastructure Status for hotels

Concession for Convention Centres

Continuation of Concessions

Depreciation rate for hotel buildings

Concession in Income Tax Act for the Hotel Industry

<https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

(Reference: [http://www. capitalmarket. com](http://www.capitalmarket.com))

Economical

Fortunately for U. S. hotel owners and operators, actual RevPAR improvement through the first six months of 2004 has already reached 9. 5 percent. Most encouraging was the 3. 2 percent increase in ADR. Record-breaking growth rates for revenues and profits are certainly welcome news for U. S. hotel owners and operators. The industry leaders have forecasted growth in the coming years for hospitality industry in the USA. Also with backing of the US government the hospitality industry is believe to show good results in coming years.

(Reference: [http://www. wikipedia. com](http://www.wikipedia.com))

Social

The American population is comparatively young compared to other developed nations like Japan and Germany and a lot of young immigrant work force is also available in the country. Therefore, it is doubly beneficial for the hospitality industry, which is always on the lookout for young work force and customers. The American government safeguards the interests of its people through following agendas:

the social inclusion process

Coordination of social security schemes

Anti-discrimination and relations with civil society

Equality between women and men

<https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

Social Agenda 2005-10

(Reference: <http://www.childstats.gov>)

Technological

The effective use of hospitality technology is one of the key factors in providing stellar customer service, since the proper implementation of this technology helps to ensure that key aspects of service are not accidentally forgotten or avoided.

The hospitality sector in the US spent a total of \$917 million in 2006 on R&D activities, compared to \$784 million in 2005. As the President outlined in his State of the Union Address, the ACI commits \$5.9 billion in FY 2007 and more than \$136 billion over 10 years to increase investments in research and development (R&D), strengthen education, and encourage entrepreneurship and innovation. (Reference: <http://www.capitalmarket.com>)

Legal

The labour laws in America are very stringent. Therefore, the hotel has to abide by the rules to avoid fines and getting into legal disputes. Some of the laws for the hospitality industry are as follows:

Common Law System

Right To Privacy

American with Disabilities Act

Safety and Security

Food and Beverage Consumption

Employment

Workplace

Contracts

Travel and Tourism

The international arrivals market for the United States has changed significantly since 2000. This goal of this analysis is to provide insights into changes affecting the top inbound markets to the U. S. The U. S. welcomed 56 million international visitors from 213 countries during 2006, up 10 percent from 2005. Total arrivals were also up 9 percent from 2000, the former record year for total non-resident visitation to the country. Arrival records were set by 72 countries, nine of which were among the top 20 inbound markets. Therefore, in 2007, the growth in arrivals was driven more from the 'emerging' markets than the top arrival markets.

Overseas arrivals (excluding Canada and Mexico) totalled 23. 9 million during 2006, up 10 percent from 2005. Travel from overseas markets accounted for 43 percent of total arrivals to the U. S. and contributed significantly to the overall growth in international arrivals in 2007. Although overseas travel is rebounding from its low in 2003 it was down eight percent from its peak in 2000 (graph below). Fourteen of the top 20 overseas markets exceeded 2006 arrivals levels by double-digits: Germany, France,

Australia, Brazil, Italy, India, PRC/HK, Spain, the Netherlands, Ireland, Venezuela, Colombia, Sweden and Israel. (Reference: <http://www.travelstatistics.com>)

Economic Growth

In real terms, America's economy grew by 3.7 percent in 2006, faster than most other developed economies around the globe and faster than the historical U. S. growth rate, since 1970, of 3.2 percent.

The overall level of GDP was \$9.89 trillion (in 2000) when Bush was elected and \$9.87 trillion in the third quarter of 2006. Exactly three years later, GDP is \$10.88 trillion, a 10 percent real increase. To put that in perspective, just the growth of the U. S. economy over the past three years is larger than half of the entire French economy. (Reference: <http://www.economicreform.com>)

Brand Selection

Headquartered in Dallas (Carrollton), Texas, Accor North America operates more than 900 upscale and economy properties including nationwide economy leaders Studio 6 and Motel 6 and the upscale Sofitel and mid-scale Novotel and Ibis hotel locations in the U. S., Canada and Mexico. Its flagship chain, Motel 6, caters primarily to vacationing families in the US and Canada with a limited menu of amenities.

Accor's plan for the U. S. should focus on Motel 6, Studio 6, Sofitel and Novotel brands. The company should plan to grow Motel 6 and Studio 6 aggressively. "We're working on new prototypes for both brands," Le Mener

said. “ We intend to be very aggressive with a goal to develop 70 to 75 properties a year”, Mener added. Novotel should follow the growth plan of Sofitel, which is to have properties only in the top 20 to 25 markets in the U. S. “ We see Novotel as an international network,” he said.

Business travellers and families on a vacation are looking for budget hotels as they want the cheapest mode of accommodation. Accor has a great presence in the low budget segment and therefore, it should continue to grow its hold in this segment. However, it should also look at growing in other segments of the market. This will help Accor in creating brand awareness and also increase its market share in the US.

Accor in USA

Brand Hotels Rooms Managed/Franchised

Motel 6 815 85, 421 127

Red Roof Inns 360 39, 622 101

Studio 6 37 4, 714 2

Sofitel 8 2, 633 1

Novotel 6 1, 835 3

Total 1, 226 134, 225 234

(Reference: [http://www. accor. com](http://www.accor.com))

Financial Strategy

Accor USA was struggling with manual account reconciliation that postponed month-end accounting for its growing number of properties. Department <https://assignbuster.com/strategically-evaluate-the-accor-expansion-plan-tourism-essay/>

inefficiencies and error-prone manual processes caused delays with the identification of exceptions like missing and late deposits. High turnover at properties and reporting delays exposed the company to expensive losses with annual write-offs averaging \$1.5 million. Accor USA had no process for escheatment and a 2004 audit resulted in \$3 million dollars in penalties for unclaimed property that had not been filed with the appropriate states.

(Reference: [http://www. accor. com](http://www.accor.com))

Accor USA faces a lot of financial problems that cannot be sorted out in a matter of time. It has very less cash left to fund its operation in the USA. Although, the funds from operations increased 7% to \$906 million in 2005, it still struggles to keep up. Capital expenditure for renovation and maintenance rose by nearly 15% to

\$326 million during the year, and represented 4.5% of revenues, versus 4.2% in 2005. Free cash flow amounted to \$580 million. (Reference: <http://www. accor. com>)

As seen above, Accor USA's debt is decreasing and cash flows are increasing, therefore it should concentrate on the expansion programme as the cash flows increase. However, it should focus on economy hotels like Motel 6 and Studio 6 as they require less money. To fund these projects Accor can raise cash money from equity market and some from its operations.

With its more substantial financial resources, Accor should step up the pace of growth and enjoy greater financial flexibility. The initial three-year (2005-2007) expansion budget has been increased by 39%, to EUR 1.7 billion from

EUR 1.2 billion, to fund the development of various hotel projects in the U. S.
(Reference: [http://www. accor. com](http://www.accor.com))

To improve its financial flexibility, Accor should undertake an innovative real estate management strategy designed to meet two main objectives:

Reduce capital intensity in upscale hotels.

Variable holding costs in the midscale segment.

In the upscale segment (Sofitel), Accor wants to sell the hotel properties while retaining the management contract, sometimes with a minority stake, in order to reduce earnings volatility in a segment that is more sensitive to business cycles. The objective is for 75% of all Sofitel units to be under management contract in 2006, versus 62% in 2004 and 52% in 2000.

(Reference: <http://www. accor. com>)

In midscale hotels, fixed leases are going to be transformed into variable leases based on a percentage of revenues with no minimum guaranteed. One of the objectives is to variable a proportion of the hotels' fixed costs.

Marketing Strategy

Accor's big-spender approach has made it the arch-collector of brands, and some observers wonder whether the group can continue being all things to all people without diluting its focus. Nevertheless, it's an approach that has established the French company as the world's third-largest hotel operator, and its coverage of multiple market sectors allows it to spread the risks of a downturn in any one part of its business.

Accor group should be focussing on marketing its hotels through advertisements in magazines, television and Accor's other services operational in the U. S. It has joined hands with various magazines and is actively participating in television adverts, which will help in marketing its product.

Many customers locate and book their Accor hotel accommodation through [www. accorhotels. com](http://www.accorhotels.com) and associated brand-specific web sites, where they are offered the opportunity to opt-in to an online communications programme.

Accor's online relationship marketing strategy should aim to convert prospects into customers and build customer value through increasing the depth of relationship and growing revenues from repeat bookings, cross-sales, up-sales and referrals.

Customer relationship and marketing director of Accor Hotels, Mathieu Staat, said, “ Online relationship marketing is an important, but complex activity for us. Accor have several hotel brands and offer online communications in up to five languages to subscribers across 15 target zones. They also run six different loyalty and subscription cards.