Overview of starwoods hotels and resorts worldwide inc

A. Overview of Starwoods Hotels & Resorts Worldwide Inc. Starwood Hotels & Resorts Worldwide Inc. is one of the largest hotel companies in the world. It was originally formed by a real estate investment firm Starwood Capital under the name of Starwood Lodging and was run by the ambitious Barry Sternlicht. Later on Starwood Lodging came to be known as Starwood Hotels & Resorts Worldwide Inc after Barry Sternlicht stepped down as CEO.

The company owns and operates hotels leading brands such as Sheraton, Westin, St. Regis, Four Points, and it’s recently developed W brand. The majority of Starwood's hotels are owned by franchisees, and the company directly owns or leases about 170 of its approximately 750 hotels worldwide. Nearly 500 of the company's hotels are in North America. Starwood runs hotels in some 80 countries in Asia, Europe, Africa, and South America, including a chain of prestigious European palaces called the Ciga Group.

B. Industry Analysis

a. Porter’s Five Forces In this model, three forces arise due to from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers. Industry Rivalry:

Starwood Hotels & Resorts Worldwide, Inc. has many competitors in the hotel and lodging industry, but its major upscale and luxury industry rivals consist of four other companies. These competitors are Hilton Hotels, Marriott International, Inc., Global Hyatt Corporation, and MGM Mirage. They have built a brand image and equity that intensifies rivalry in the industry.

Since all of the actors in the hotel industry made huge investments, their exit barrier is high that adds more fuel to rivalry in the hotel industry.

Threat of Substitutes: In the overall hotel substitutes category, there are several substitutes for Starwoods such as timeshares, staying at friends and relatives’ houses, camps, cruises, and so on. Among these substitutes, timeshares and cruises fall into the luxury and upscale segment of the lodging industry in which Starwood and its competitors exist.

1. Timeshare is a form of vacation property ownership where the use and costs of running the resort are shared among the owners. A typical timeshare offers a full condominium unit with all the necessities found in a condominium. Because of such a high demand for timeshares by family customers, timeshares are becoming more popular. However, timeshares are not a big threat to hotels and resort companies in this industry. In fact Starwoods has already started this timeshare business, and the business has been successful, taking advantage of these companies’ strong brand names and high reputations.

2. Cruises appeal to many travelers because they are considered all-inclusive vacations just like the resorts. However, cruises and resorts which provide all-inclusive vacation tend to include different amenities in the base price. For example, many resort packages include airfare and airport transfers, whereas cruise customers have to pay extra for them. Despite the fact that cruises may be less inclusive and therefore more expensive than a comparable resort vacation, they are great for travelers who want to explore several destinations and participate in a variety of activities.

On the other hand, resorts offer the best value for relaxing vacations more than cruises. Therefore, all-inclusive resorts are a better option for travelers whose focus is on relaxing and drinking. In conclusion, as a substitute for a resort, a cruise could somewhat be a threat to resorts. However, because cruises and resorts target customers that are classified by different travel purposes, cruises pose a moderate threat to Starwoods. Threat of Potential Entrants: The threat of new entrants in the industry is low due to the following factors:

1. Economies of Scale Due to the difficulties of achieving the economies of scale in this industry, threat of entry is low. Economies of scale enable companies to produce profits and help to ensure a steady stream of income for the operation. Economies of scale would act as a barrier to entry to entrants because of the difficulties they would face in order to compete on a large enough scale in the market. A substantial investment would be needed to create the size required to have the volume necessary to lower costs. However, because the size of the consumer market is not fixed and continues to grow, additional investment would not be needed to expand the market to allow for the incoming firms’ inclusion.

2. Product Differentiation Another barrier is the brand identification and customer loyalty that the incumbent firms possess. Because the main competitors in the market have been in operation for numerous years, these firms already possess many characteristics that give them a competitive advantage over other companies just joining the industry. These incoming firms would have to invest large amounts of time and money on creating

enough brand identification and customer loyalty to even compete on the same scale as those companies already competing in the market.

3. Managerial Know-How Hotels need to have knowledgeable management that has typically been with the company for numerous years. These individuals have created the success that those firms enjoy and constantly work to maintain it. Therefore, there is no substitute for the experiences gained through operation, making it difficult for incoming firms to obtain the leadership needed to compete with those already in the market.

Bargaining Power of Consumer: Within the hotel industry there is a relatively high threat of buyers because of the low switching costs associated with buyers' operations. These buyers include hotel owners, individual customers, and travel agents. Since all hotels in the industry serve the same purpose, Starwoods works to create customer loyalty and offer competitive pricing in order may maintain a customer base.

Bargaining Power of Suppliers: Starwoods hotels & Resorts do not likely face significant risk from suppliers of tangible materials. Examples of some of the common supplies include constructions, food and beverage supplies and food service equipment, furniture, supplies for decoration, insurance, security equipment, office supplies and equipment, so on. Supplies such as these are provided through many different distribution channels by numerous suppliers. Because many suppliers exist and the minimal switching costs associated, the bargaining power of suppliers is low.

These low switching costs are attributed to the fact that the products that Starwoods needs and suppliers supply are mostly standardized. Moreover, this industry has high barriers to entry, so suppliers face significant costs of forward vertical integration. Thus, forward integration is not as serious a threat to the hotels in this industry. Specialized laborers also supply Starwood’s industry.

Because the hotel and resort business is all about providing high quality service to customers, workers in hotels are educated and specialized to deliver better service to customers. Subsequently, this quality services leads to maximized customer satisfaction. Therefore, Starwoods hire those who have the ability to deliver service pleasantly. As the hotel industry grows along with its current potential there are many people who want to work in this industry. These people are given training and education before they are hired. Therefore, laborers are not a significant threat to Starwood and other competitors in this industry.