Hotel Industry Analysis

Including Strategic Maps, SWOT’s and Financial Comparisons between Choice Hotels International and Marriott Hotels & Resorts

BUSINESS 499 A CAPSTONE

March 14, 2012
Authored by: Sean P Mahan
TABLE OF CONTENTS

Executive Summary ........................................................................................................................................ 1
Company Logos ............................................................................................................................................. 2
Part I—A Hotel Industry Analysis .................................................................................................................. 3
  Breakdown of Companies .............................................................................................................................. 3
Dominant Economic Characteristics ............................................................................................................. 5
Competitive Forces ...................................................................................................................................... 7
Driving Forces .............................................................................................................................................. 9
  Globalization ............................................................................................................................................... 9
  Emerging Technology ................................................................................................................................. 10
  Internet Capabilities ................................................................................................................................. 11
Rival Positions ............................................................................................................................................ 11
Strategic Moves .......................................................................................................................................... 12
Key Success Factors ................................................................................................................................... 14
Prospects for Attractive Profits .................................................................................................................... 15
  Growth Potential ..................................................................................................................................... 15
  Profitability for driving forces .................................................................................................................. 15
Conclusion ..................................................................................................................................................... 16
Part II—Comparison between Choice hotels and Marriott ........................................................................... 18
SWOT For Marriott Hotels ............................................................................................................................ 19
SWOT for Choice Hotels ............................................................................................................................... 20
Weighted Strength Assessment ...................................................................................................................... 22
Un-weighted Assessment ................................................................................................................................. 24
Financial Comparisons ................................................................................................................................ 25
Roadmap ......................................................................................................................................................... 27
  Where Are We Now? ................................................................................................................................. 28
  Where Do We Want To GO ...................................................................................................................... 28
  How Will We Get There? ........................................................................................................................... 29
  What is it Going to Take to Get There? ...................................................................................................... 29
References ...................................................................................................................................................... 31
EXECUTIVE SUMMARY

One of the greatest industries that the world is a participant of today is the hotel industry. From family vacations to business trips, people all over the world are benefactors of the industry. The industry has hotels for prices as low as $10 a night at a Las Vegas casino hotel, to the most lavish hotels that can cost as much as you want them to.

Within this paper, the hotel is analyzed for the investor to know if he or she should invest their money into the industry. Questions like, “How much does a 5 Diamond Hotel actually cost?” to “Where be the growth opportunities really at in a saturated market?” will be answered. Warnings will be given to investors.

The big problem is that investing in a hotel is expensive and can have too many unanswered questions about the market. In this analysis, I have come up with a solution that should satisfy the investor with enough information to decide the risk that is needed to take to either invest in a current hotel, or invest in a new venture hotel.

In 2010, it was counted that 10% of the world GDP was spent on the hotel industry. Marriott Hotels had a net income of nearing almost $500 million dollars! Every other company in the industry has their bite of the pie and wants to make a larger dent in the market capitalization.

This analysis will help each investor decide their ability to become a part of the hotel industry and help them know exactly how much money should be invested in the company or country of their choice.
COMPANY LOGOS
PART I—A HOTEL INDUSTRY ANALYSIS

The hotel industry is one of the largest industries in the entire world. Revenues exceed into the billions of dollars. More and more people are using the industry to enjoy personal vacations and business related trips. With so much profit to be earned, many investors want their piece of the pie. However, as an entrant to the market, it is difficult to gain the millions of dollars of capital to being your own venture.

In this article, we will do an in-depth analysis of the hotel industry. We will analyze the market to see the key players, driving forces, key success factors, and financial positions of many of the top players in the market. By knowing this information, we will be able to better show an investor what is needed to become profitable in this organization.

The top industries within the hotel industry that we will analyze include Marriott Hotels & Resorts, Choice Hotels International, Hyatt Hotels & Resorts, Hilton Hotels, Gaylord Entertainment, Red Lion Hotels, Wyndham Worldwide, and Best Western Hotels. We will specifically analyze Marriott and Choice International.

BREAKDOWN OF COMPANIES

With their worldwide headquarters based in Washington D.C., Marriott Hotels offers full service hotels and resorts. They have 482 total hotels across the world market right now and are preparing for a massive expansion.

Marriott Hotels operates under the four business segments: “North American Full-Service Lodging, which includes the Marriott Hotels & Resorts, Marriott Conference Centers, JW Marriott, Renaissance Hotels, Renaissance ClubSport, and Autograph Collection properties located in the
United States and Canada; North American Limited-Service Lodging, which includes the Courtyard, Fairfield Inn & Suites, SpringHill Suites, Residence Inn, TownePlace Suites, and Marriott ExecuStay properties located in the United States and Canada; International Lodging, which includes the Marriott Hotels & Resorts, JW Marriott, Renaissance Hotels, Autograph Collection, Courtyard, AC Hotels by Marriott, Fairfield Inn & Suites, Residence Inn, and Marriott Executive Apartments properties located outside the United States and Canada, and Luxury Lodging, which includes The Ritz-Carlton, Bulgari Hotels & Resorts, and EDITION properties worldwide” (None, Google Finance, 2012). Marriott Hotel’s current market capitalization is $12.81 billion.

Choice Hotels is based out of Silver Springs, Maryland. “Choice had 6,142 hotels open and 621 hotels under construction, representing 495,145 rooms open and 50,787 rooms under construction, in 49 states, the District of Columbia and over 35 countries and territories outside the United States. Choice franchises lodging properties include brand names, Comfort Inn, Comfort Suites, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel, Cambria Suites and Ascend Collection. The Company conducts its international franchise operations through a combination of direct franchising and master franchising relationships” (None, Google Finance, 2012).

As we dive into this analysis, we will analyze if the market is too saturated and if it is a market that should be avoided or not. By knowing this information, we will show the likelihood of profitability of the current hotels in the market and the possible new ventures that will be happening.
DOMINANT ECONOMIC CHARACTERISTICS

There are many questions that must be answered when understanding the hospitality industry. Among these include addressing the market size and how fast the industry grows, number of rivals, and the number of buyers, product differentiation and innovation, and pace of technology change. In this section, we will analyze each of these key characteristics and how the entire hotel industry is affected by each other.

In an article written by the Ecole Hoteliere Lausanne, “by the end of 2011, it [the hotel industry] will contribute more than $US 9.3 trillion to world economic activity – more than 10% of total spending” (None, Ecole Hoteliere Lausanne, 2012). Although the world has had recent economic difficulties, the hotel industry has still shown resiliency in the face of turmoil. According to the United Nations World Tourism Organization, “There was a record overall growth rate of 6% for 2007, and a very healthy growth rate of 4%-5% is projected over the next ten years” (None, Ecole Hoteliere Lausanne, 2012). The industry is definitely on the rise and is expanding. This allows for more and more competition with the easier barriers for entry.

The hotel industry is a worldwide industry that has many major corporations along with thousands of locally owned hotels and bed and breakfasts. One specific trend that each of these brands are experiencing include allowing foreign investors purchase ownership to the hotels. This
allows the company to still maintain control of the company. “This provided the capital that was needed for further expansion” (IRS, 2011).

While each of these companies seems very similar, they must differentiate their products. There are many types of hotels. They include: “commercial hotels, airport hotels, conference centers, economy hotels, suite or all-suite hotels, residential hotels, casino hotels, and resort hotels” (IRS, 2011).

In July 2005, Knight Rider Newspaper wrote how the hotel industry is using product differentiation. These include:

- “Marriott International has been replacing mattresses at its Marriott and Renaissance hotels for several years and is adding new bedding at its 2,400 hotels, including higher thread count sheets, down comforters and duvet covers at a cost of $190 million.

- Hilton Hotels is introducing new bedding across its brand, including Hilton, Doubletree and Embassy Suites. There will be higher thread count sheets, plush top mattresses, extra pillows and user friendly clocks.

- Crown Plaza replaced some 50,000 beds and bedding in 2004, hired a sleep doctor for advice on relaxation, and tossed in a sleep kit for guests.

- Radisson in 2004 began moving in custom-designed Sleep Number beds at 230 of its hotels and resorts, with most of its 90,000 beds to be replaced by 2006. New bedding is also included in the makeover.

- Hyatt recently rolled out its Grand Bed, a 13 ½ inch pillow-top mattress, and added more luxurious linens and decorative pillows.
• Starwood Hotels announced the debut of a new bed at its moderately priced brand, Four Points by Sheraton. The Four Comfort Bed, a $13 million investment, joins the Heavenly Bed and Sheraton Hotel’s Sweet Sleeper Bed in Starwood’s lineup.

• Red Roof Inns will offer pillow top mattress pads, 230 thread count sheets and hypoallergenic pillows at select hotels” (Martinez, 2005).

The last dominant economic characteristic that needs to be addressed is technology within the industry. Almost every hotel has moved to a complete computer based ability to track each guest, credit card information, and other statistical information that needs to be recorded. Many hotels are using the electronic key card rather than using a regular door key. These key cards, at many hotels, have various uses. For example, at any Disney hotel, you can use your hotel key card for purposes to get into your room, your Disney Parks ticket, identification within the park, and a credit card for Disney stores, restaurants, or bars. You can even use the card to charge purchases from a store in the Epcot Park to your room in the Grand Floridian Room 2051. This is amazing technology! Many hotels are patterning this technology that Disney is doing to their own guests.

**COMPETITIVE FORCES**
By using Michael E. Porter’s Five Forces Model, we will be able to understand the rivalry among the existing competitors, threats of new entrants and substitute products, and detriments of supplier and buyer power. After a carefully analyzing this industry, the following analysis has been made:

### Threats of New Entrants
- Barriers to entry:
  - Very large capital requirements
  - Product Differentiation
  - Real Estate Costs
  - Ability to gain new customers quickly
  - Cost disadvantages
  - Economies of Scale

### Detriments of Supplier Power
- Many supplier channels
- Ability to supply quickly
- Importance of industry
- Buyer’s switching costs to others

### Rivalry Among Existing Competitors
- World flooded with competitors
- Competition focused on perfect service
- Many fixed costs
- Strategic stakes
- Many competitors market same people
- Small industry growth
- Training costs

### Detriments of Buyer Power
- Many more buyers than sellers
- Switching to other industry
- Buyers profit margins
- Importance of product

### Threat of Substitute Products
- Price Reduction
- Market Share Steal
- Relative Quality Products

The rivalry among the existing competitors is difficult because there are so many hotels in the current market. With the difficulty of product differentiation, perfect service, and lowering fixed costs, the rivalry will only become stronger. When we examine the barriers to entry, making a product or hotel is difficult. The cost of capital is quite high. To start a 5 Star Hotel, the cost of capital can run up to $150 million (www.justanswer.com).

If you are able to raise the $150 million needed to start a hotel, you have to know your competition, your supply chain line, and your customers. Knowing these three components will allow you to be successful, if you choose to fight in this tough market.
In this section we will analyze three key driving forces to the hotel industry and how they each company is affected by these forces, and whether or not they are in a good playing field or not.

**GLOBALIZATION**

If you want to be a major player in the hotel industry, you have to be willing to be a global company. Robert Cline, author of Hospitality Adjusts to Globalization, said, “The hospitality industry is thus at the very core of the globalization of international business” (Cline, 2010).

Becoming a global business, especially within the hotel industry will prove vital if the company wishes to survive. Hotels are now facing stiff competition from companies from all over the world, especially nations in Asia.

Cline presents certain key issues that each company that competes in the global hotel industry needs to answer. These include:

“International expansion with common product and brand position;

Sales and marketing programs that fully capture global economies of scale;

Organizational structures that allow global delivery of services with local operational control;
Cross-border employee training to support operations; and

Use of the world capital markets as sources of funding” (Cline, 2010).

**Emerging Technology**

To be competitive in any field, especially the hotel industry, your company needs to be on the leading edge of technology. Valyn Perini, a writer for the Talking Travel Tech online blog, says in response to the question posed, what technology will add value to a hotel? Perini says, “the answer depends on many factors, but a group of hospitality associations has identified three key technology issues that are having, and will continue to have, a direct strategic impact on the hospitality industry:

- PCI (payment card industry) compliance

- Support for guests with disabilities” (Perini, www.tnooz.com)

PCI compliance is a security system that will ultimately store credit card information safely and allow customers to feel at ease that their credit card information is safe. If your company is branded with having this information stolen, you can kiss any customer good-bye. Part of the reason people go to particular hotels is to know that they are safe. This includes their private information.

The ability to have services for guests with disabilities will prove how much the hotel actually cares about their guests. Certain amenities might include anything as simple as an elevator or bars in a shower, to anything as complex as lower counter tops and handicap beds. The technology in the hotel and in the rooms must accommodate the guests with disabilities.

Other exciting features can be found at many different hotels. For example, at Disney Hotels in Orlando, Florida, your room card has multiple features. These features include your room hotel,
your keys to any of the Disney Parks, your meal tickets, and even a credit card that will charge anything that you want to purchase in the parks to your room. This will allow you to not have to worry about carrying your wallet or identification with you throughout one of the world’s busiest tourist destinations.

**INTERNET CAPABILITIES**

We live in the internet age. Within a few seconds you can find almost anything that you are looking for in the entire world! With this luxury, there are many websites that will help you find a room at any hotel in the world. You can go to www.marriot.com or www.choicehotels.com to find a plethora of hotels across the world. You can also go to www.priceline.com or www.hotwire.com and compare hotel prices.

With this technology, it is in each hotel’s benefit to be a part of this finding resource. It allows your name to be out there and to be found a lot more.

**RIVAL POSITIONS**

“Strategic group mapping is used for the purpose of displaying the competitive positions that rival firms occupy in the industry” (None, Strategic Group Mapping, 2010). When analyzing where companies fit in the entire industry, it is important to see how each company fits their piece of the puzzle into the map. You can analyze these maps on a graph and analyze the companies in a variety of ways. By using www.googlefinance.com, here is a map of the hotel industry comparing the market capitalization and current stock price of six major hotels in the industry.
The strategic group map above compares the average company stock price to the current market capitalization. Knowing this information allows you investors to know who the top competitors are and where they are receiving most of their funding from. For example, Red Lion Hotels has a very high market capitalization, while their stock price is rather low. On the flip side, Hyatt Hotels has a very high stock price and an average market capitalization. By understanding these two simple data points and seeing it clearly on the above map, an investor can understand how much money needs to come from an investor, and how much money other stock holders are putting into the company.

**STRATEGIC MOVES**

Companies in any industry have the need to be fully aware of the trends that are happening in its industry. They need to know what the future of the industry is going so they can prepare for the future and not be left in the dust.
One of the biggest trends is online deals. These deals can be more and more found on www.groupon.com and other similar discount websites. Groupon, an online coupon website, is combined with Expedia.com and helps find discount rates too many things, including vacations. Currently on www.groupon.com, you can get a night at the Posh Palm Springs Inn in Palm Springs, California for $178 per night, rather than the original $298 per night. Other deals include $84 per night at the Radisson Hotel in Nashua, New Hampshire rather than spending the $204 or a two night stay at the Bentwood Inn in Jackson Hole, Wyoming rather than spending $580. This trend of online marketing and deals is not going out of style and hotel companies should look into the advantages and disadvantages of advertising on this website.

Another trend that needs to be known is how well companies are doing financially. By doing a simple internet search, you are able to find the status of how each public company is doing. Below is a spreadsheet of how each company has performed from 2008 to 2010.

<table>
<thead>
<tr>
<th>Company</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marriott</td>
<td>458 M</td>
<td>(346 Million)</td>
<td>362 M</td>
</tr>
<tr>
<td>Red Lion</td>
<td>(8609) T</td>
<td>(6663) T</td>
<td>(1637) T</td>
</tr>
<tr>
<td>Choice Hotels</td>
<td>24143 T</td>
<td>23631 T</td>
<td>18711 T</td>
</tr>
<tr>
<td>Gaylord</td>
<td>(89128) T</td>
<td>(23) T</td>
<td>4364 T</td>
</tr>
<tr>
<td>Wyndham</td>
<td>379 M</td>
<td>293 M</td>
<td>(1074) M</td>
</tr>
<tr>
<td>Hyatt</td>
<td>51 M</td>
<td>(40) M</td>
<td>112 M</td>
</tr>
</tbody>
</table>

Each of these numbers was pulled directly from the company’s website or an outside source via Yahoo Finance or MSN Money. Here we can see how each company is financially off of their net income. Of course, we don’t see the full story behind these numbers, especially the negative numbers. Many of these companies were investing for future growth opportunities and had taken out several loans to prepare for.
Taking the above information, we are able to best guesstimate which rivals are preparing for the future growth of their company. You could probably guess that Red Lion and Gaylord, the two smallest hotels in the comparison, are preparing for future growth. As of 2010, Red Lion only had hotels in eight states and one Canadian province. Gaylord Hotels currently has four major hotels in four different states. By their nature in size and the investment opportunities, it is very possible that they are gearing for the future, and it is the other companies need to know how to prepare for growth from their rivals.

**KEY SUCCESS FACTORS**

Previously in this article, we learned from Robert Cline. Cline, a member of Arthur Anderson & Co. SC wrote an article entitled *The Hotel Organization of the Future: Capitalizing on Change is Prelude to Success*. Within this article, Cline lists key success factors to the hotel industry that will bring about the best in each hotel. Cline reminds the reader that, “The future success of hotel organizations will be driven in large part by the ability to foresee -- and capitalize -- on change… In this period of global transition, it behooves hotel organizations to examine the key factors that will not only define success, but the ability to survive in coming years... To stake a claim in the future, current business practices should be examined in light of what can be expected to be the key success factors in the year 2000” (Cline, 2010).

These factors include:

- “Embrace a global change orientation.
- Focus on the Customer.
- Create a defensible position through corporate strategy.
- Empower Management.
• Be in the information fast lane” (Cline, 2010)

**PROSPECTS FOR ATTRACTIVE PROFITS**

There are many factors that are taken in when understanding a company’s prospects for attractive profits. These include the industry’s growth potential, industry profitability being squeezed to subpar levels, how profitability will be affected by the driving forces, and how competently the company performs the key successes.

**GROWTH POTENTIAL**

As the industry has grown into the international market, it is required that the industry looks for opportunities in the developing nations. China specifically is a nation that is preparing itself for the hotel industry. Damien Little of the China Daily European Weekly said, “China's market is a main focus for major global hospitality players and offers a great deal of future growth potential” (Little, Europe.chinadaily.com). He then said, “But despite the overabundance of hotel rooms, China continues to push forward with considerable growth in developing hotels. STR Global places the current hotel pipeline in China at 460 hotels, representing more than 150,000 rooms. While this may not amount to half the activity of development in the hotel market across the country, it still accounts for about 43 percent of total projects and 57 percent of the number of rooms in the pipeline in the Asia-Pacific” (Little, 2007). China is definitely a hot spot for the industry growth opportunities.

**PROFITABILITY FOR DRIVING FORCES**

When we analyze the profitability of the driving forces (i.e. globalization, technology, and internet capabilities) we can see how companies who have been successful have played out, and others have
not. For example, Marriott Hotels had a net income of $458 million and Wyndham Hotels wasn’t too far behind at $379 million. Those hotels that are staying back like Red Lion and Gaylord had a net income at negative $8609 thousand and $89128 thousand, respectively. While both companies are undergoing many renovations and preparing for the future, you can see how these companies are financially when they have limited their growth to a small number of hotels. Little teaches a concern that the hotel industry is facing. The question is posed: If oversaturation is a concern, why do people continue to build hotels? He responds, “Much of it is due to the way planning works in China and the reliance from local governments on land transfer fees for revenue. Many hotel projects do not make a lot of commercial sense in China. But if you look at the bigger picture, it is easy to see why hotels are still being built.

Typically a hotel development is just one part of a larger mixed-use project. If the mixed-use project includes a residential component, then the developer will be more than prepared to risk losses in a hotel in return for potential profits from the residential component. The developer is happy, the local government is happy and the hotel management companies are happy. Consumers should also be happy given the dampening effect oversupply has on room rates” (Little, 2007). Little then warns, “With no end in sight to supply in hotel markets across China, an unhealthy performance outlook is likely to continue with profit levels not justifying investment costs. Should there prove to be a few more bumps along the way with the global economy, or the Chinese economy, the situation may prove to be a major disaster for the industry in the long term” (Little, 2007)

**CONCLUSION**

In a world market, it is difficult to imagine not having the hotel industry. While it is very possible that billions of dollars are being spent, the market is saturated and if one decides to enter
the market, they ought to be the very best at the game. If they are not they should know what the likelihood of them exiting the market quickly will be.

    Growth opportunities and technology advances need to be on the front end of the mind of the company. If the company is not willing, nor able to grow, the exit barriers are wide open. This is the same with technology. In the technology era that we live in, it is vital to a company’s well-being to be able to use technology not only to enhance the company on the inside, but to impress the guests that stay in each hotel on the outside. If a company can do this, their likelihood of being a healthy competitor increases dramatically and they will have a chance to go up against strong competitors like Marriott and Wyndham hotels.
PART II—COMPARISON BETWEEN CHIOCE HOTELS AND MARRIOTT

In Washington D.C. two of the most competitive hotel chains, Marriott Hotels and Resorts and Choice Hotels International, compete every second to get a buyer. These brands focus specifically on their own niche and therefore compete against in two separate markets within the hospitality industry.

In this analysis, a thorough investigation has been completed and through the following, decisions have been made on how to help the “weaker” of the two companies to find more success in the competitive future:

- SWOT analysis for each company
- Weighted Strength Assessment
- Un-weighted strength assessment
- Financial Key Ratio Comparison

Ultimately, these findings will bring about key information that will show who the stronger competitor is. By knowing this information, a decision will be made to help define the difference between these two companies, and recommendations will be made to enhance the less competitive company to generate more bottom line profits.
Marriott Hotels SWOT Analysis

**Strengths**
- Global Presence
- Unhampered by Hotel Ownership
- Focused on International Growth
- Strong Internet Presence
- IT Solutions

**Weaknesses**
- Domestic Market Focus
- Luxury Brands
- Courtyard Brand
- Not Hitting Low-Cost Brand Market

**Opportunities**
- Emerging Markets
- Individuated experience

**Threats**
- Consumer Confidence
- Economy Brand Development
- Credit Crunch

Marriott Hotels is a worldwide brand that is very popular for higher end vacationers and business. The above SWOT analysis describes many of the aspects of the company that Marriott can see in their company as well as needed improvements within the company.

From the previous analysis, international growth was cited as one of the best ways for a company to prepare for the future. Marriott Hotels is specifically designing their growth around the international scope. Spending money on research and development is currently preparing the company for a great opportunity to increase market share and then bring about increased revenue. However, as Marriott is focusing more on the international expansion, their drive for increased market share within the United States is a losing battle. This might be because of another weakness,
only focusing on the high end product. While the company is very good at keeping the high end brand, moving into the lower end market does not go against the Marriott mission statement, which is: “Marriott Vision is to be the world’s leader in hospitality services and it achieves that through its spirit to serve culture.” Therefore, not opening that product line is a large weakness for the company. One of the threats that Marriott faces is consumer confidence. This is a shared threat with all of the hotel industry. Marriott faces this threat by people unsure about the brand or not knowing exactly what Marriott offers. When it comes down to it, people don’t pick your hotel based off of needing a room to stay for a night. Buyers want the amenities that are offered at the lowest cost possible. Marriott is threatened by the similar offerings that other hotels give out at lower rates.

### SWOT FOR CHOICE HOTELS

<table>
<thead>
<tr>
<th></th>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Brand Portfolio Diversification</strong></td>
<td><strong>Difficult to Manage Brand Diversification</strong></td>
<td><strong>Expansion of hotel franchise</strong></td>
<td><strong>Consumer Confidence</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Relations with leading companies in different businesses</strong></td>
<td><strong>Each company has own goals and objectives</strong></td>
<td><strong>Promotional Programs</strong></td>
<td><strong>Economy Brand Development</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Ability to franchise</strong></td>
<td><strong>Little communication across board of hotels</strong></td>
<td></td>
<td><strong>Credit Crunch</strong></td>
</tr>
<tr>
<td></td>
<td><strong>State of the Art Technology</strong></td>
<td><strong>No clear image of branding</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                      | **Promotional Programs**                           |                                                     |                                    |                                   |

Choice Hotels SWOT Analysis

**Strengths**

- Brand Portfolio Diversification
- Relations with leading companies in different businesses
- Ability to franchise
- State of the Art Technology

**Weaknesses**

- Difficult to Manage Brand Diversification
- Each company has own goals and objectives
- Little communication across board of hotels
- No clear image of branding

**Opportunities**

- Expansion of hotel franchise
- Promotional Programs

**Threats**

- Consumer Confidence
- Economy Brand Development
- Credit Crunch
Choice Hotels is the parent company of many hotels including Comfort Inn & Suites, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel, Cambria Suites and Ascend. Having this many different hotel identities with their diverse brand diversification is one of the best strengths that Choice Hotels has. This is similar to Ford Motor Company where they have many different types of cars from the F-150 to Mustang. If the Mustang sales are down, you have many other brands to fall back on. Choice Hotels has the advantage in the industry that their many hotels fit all different types of lifestyles and budgets.

With the strengths that Choice has, it does have weaknesses that need to be turned into strengths. The added benefit of the brand diversification makes the management of each of each brand difficult. Another weakness that Choice faces is each of the subsidiaries has their own goals and mission statements. Each brand focuses on different people and while is a strength for the customer, can be detrimental to a company not ready for that many products in the market. Choice has to know what each of their hotels are and what they do so they can offer the best product to the right people. This is a weakness if handled incorrectly.

One of the best opportunities that Choice is facing is expanding more into the international scene. Choice currently has “6,142 hotels open and 621 hotels under construction, representing 495,145 rooms open and 50,787 rooms under construction, in 49 states, the District of Columbia and over 35 countries and territories outside the United States” (googlefinance.com). As they continue to expand into the international market, Choice has an opportunity to capitalize on a market share that other hotels have a difficult time capturing across the world.
A weighted strength assessment allows a person to look at key success factors in an industry and then focus on how each specific company is doing in the weight given to them. Within this analysis, I analyzed the following hotels: Marriott Hotels, Gaylord Entertainment, Hyatt Hotels, Choice Hotels, Hilton Hotels, Red Lion, Wyndham, and Best Western.
The key success factors that compare are: image, price, distance from travelers, attraction to businesses, local entertainment, financially stable, marketing projects, customer service, and dining opportunities. Specifically, when focusing on Marriott and Choice Hotels, Marriott seems to be better prepared for the future. This is based off of information on how their company structure works and how they have performed in recent years.

While Marriott may seem like it is a better fit for strong companies, an un-weighted assessment, an assessment that does uses the same weights, but does not take into account the weight system, shows how stiff the competition between the two rivals and the rest of the industry really are.
### Hotel Industry Competitive Strength Assessment

<table>
<thead>
<tr>
<th>Key Success Factors/Strength Measures</th>
<th>Marriott</th>
<th>Gaylord</th>
<th>Hyatt</th>
<th>Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Price</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Distance from Travelers</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Attraction to Businesses</td>
<td>9</td>
<td>8</td>
<td>6</td>
<td>6.5</td>
</tr>
<tr>
<td>Local Entertainment</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Financially Stable</td>
<td>7</td>
<td>9</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Marketing Plans</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Customer Service</td>
<td>8</td>
<td>6</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Near options for Dining</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Overall Strength Rating</td>
<td>65</td>
<td>61</td>
<td>61</td>
<td>61.5</td>
</tr>
</tbody>
</table>

#### Rating Scale 1=Very Weak, 10=Very Strong

<table>
<thead>
<tr>
<th>Key Success Factors/Strength Measures</th>
<th>Hilton</th>
<th>Red Lion</th>
<th>Wyndham</th>
<th>B Western</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image</td>
<td>9</td>
<td>5</td>
<td>6.5</td>
<td>7</td>
</tr>
<tr>
<td>Price</td>
<td>4</td>
<td>6</td>
<td>6.5</td>
<td>8</td>
</tr>
<tr>
<td>Distance from Travelers</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Attraction to Businesses</td>
<td>8</td>
<td>5</td>
<td>6.5</td>
<td>3</td>
</tr>
<tr>
<td>Local Entertainment</td>
<td>8</td>
<td>5</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Financially Stable</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Marketing Plans</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Customer Service</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Near options for Dining</td>
<td>6</td>
<td>4</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Overall Strength Rating</td>
<td>60</td>
<td>47</td>
<td>56.5</td>
<td>56</td>
</tr>
</tbody>
</table>

In this un-weighted strength analysis, we are able to take the same key success factors and see how each company can compare to each other and to also see where improvements are needed.
As said in Part 1 of the assignment, the hotel industry is very competitive. To capture the entire market is impossible, and to capture even a significant portion is a very big accomplishment. Nonetheless, Marriott and Choice are doing their parts in capturing their specific market shares.

In this analysis, the most important key success factors are brand image, price, financially stable, and customer service. Between these four totals, the un-weighted score for Marriott and Choice is tied at 28. We can see in the most important factors, while the final score is in favor of Marriott, Choice and Marriott are very close in relation. This is what makes these two companies great rivals!

FINANCIAL COMPARISONS

The main reason that comparing these two companies is inefficient is because Marriott is a $12.15 billion business and Choice is a $2 billion business. Therefore, Marriott is a large-cap company, and Choice is a mid-cap company. However, when we examine the financial ratios, you can get a better glimpse of what these companies are doing with their money and how they are investing in themselves and in their stockholders.

I took several common financial ratios and combined them into the next page. These ratios show anything from gross profit margin to current and quick ratios, to a five year trend on the company’s financial information.

Although Marriott’s revenue is significantly higher, we compare Choice’ gross profit margin of 44.8% to Marriott’s 11.7% and there isn’t even a race. Other notable ratios include the return on invested capital, return on assets, working capital per share, and cash flow per share, as well as each
of the statistics within the five year average. It is clear that Choice Hotels is more effective with their revenue earned.

<table>
<thead>
<tr>
<th>Marriott Hotels</th>
<th>Choice Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Profit Margin</strong></td>
<td><strong>Gross Profit Margin</strong></td>
</tr>
<tr>
<td>11.7%</td>
<td>44.8%</td>
</tr>
<tr>
<td><strong>Current Ratio</strong></td>
<td><strong>Current Ratio</strong></td>
</tr>
<tr>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Quick Ratio</strong></td>
<td><strong>Quick Ratio</strong></td>
</tr>
<tr>
<td>0.4</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Receivables Turnover</strong></td>
<td><strong>Receivables Turnover</strong></td>
</tr>
<tr>
<td>13.6</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>Inventory Turnover</strong></td>
<td><strong>Inventory Turnover</strong></td>
</tr>
<tr>
<td>14.5</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Asset Turnover</strong></td>
<td><strong>Asset Turnover</strong></td>
</tr>
<tr>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Revenue to Assets</strong></td>
<td><strong>Revenue to Assets</strong></td>
</tr>
<tr>
<td>2.1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Return on Invested Capital</strong></td>
<td><strong>Return on Invested Capital</strong></td>
</tr>
<tr>
<td>19.1%</td>
<td>48.7%</td>
</tr>
<tr>
<td><strong>Return on Assets</strong></td>
<td><strong>Return on Assets</strong></td>
</tr>
<tr>
<td>3.4%</td>
<td>24.7%</td>
</tr>
<tr>
<td><strong>Working Capital per Share</strong></td>
<td><strong>Working Capital per Share</strong></td>
</tr>
<tr>
<td>-$3.70</td>
<td>$0.18</td>
</tr>
<tr>
<td><strong>Cash per Share</strong></td>
<td><strong>Cash per Share</strong></td>
</tr>
<tr>
<td>$0.31</td>
<td>$1.84</td>
</tr>
<tr>
<td><strong>Cash Flow per Share</strong></td>
<td><strong>Cash Flow per Share</strong></td>
</tr>
<tr>
<td>$1.10</td>
<td>$2.04</td>
</tr>
<tr>
<td><strong>Free Cash Flow per Share</strong></td>
<td><strong>Free Cash Flow per Share</strong></td>
</tr>
<tr>
<td>$2.15</td>
<td>$1.38</td>
</tr>
</tbody>
</table>
By comparing the above information, and as stated in the introduction, a choice would be made on who was the weaker rival between Marriott and Choice Hotels and then a roadmap would be provided for that company.

A roadmap is a course of questions that are asked to see a weaker company’s current status and give recommendations to that company to enhance their ability to become a stronger competitor for market share. This roadmap asks the following questions:

- Where are we now?
- Where do we want to go?
- How will we get there?
• What is it going to take to get there?

After a careful analysis, Marriott Hotels and Resorts have been chosen as the weaker company. This choice has been made mostly off of financial information of the current status and where the company can be in a ten year radius. It is also focused specifically on perfecting the SWOT analysis.

WHERE ARE WE NOW?

Though tough in the financials, Marriott Hotels and Resorts, has some very good things going for them. It is one of the world’s leading brands in the hospitality industry. Marriott is also a key player in the international market and is bringing revenue from all over the world. Marriott’s marketing department has truly made a remarkable company.

Although they are having great success in other countries, Marriott’s local sales seem to be stagnant. In order to fix this Marriott needs to look into the future.

WHERE DO WE WANT TO GO

Marriott ought to have three priorities for their future:

1. Improve sales in a downsized American economy
2. Do more expansion in China, India, and Europe markets
3. Do more with less (use revenue wisely and make more money with the money they currently have.

One of the many ways that Marriott can have an opportunity to increase sales is form a more unique marketing plan for their little-known Courtyard Suites. By taking the less expensive route of taking the hotels they already have and letting people who don’t think they can afford a Marriott and
head to the Clarion Inn across the street, they can recapture the lost sales and be more able to improve their sales in a downsized American economy.

While the financial information is not necessarily detrimental to the company, Marriott needs to position the company to be aligned with investors to get the stock price up and to do better at receiving higher percentages on return on assets and equity. As they position the company in this movement, Marriott will begin to start the road to improving many of their ratios, including the negative ones.

**HOW WILL WE GET THERE?**

To improve in this downsized market, I would have the marketing department prepare a marketing projection together and have a plan based off of what their research would provide of how to capture the best market for their less expensive hotels. Marriott has a great opportunity to get in touch with their guests this way and by doing this projection; they could reach millions of dollars in sales very quickly.

To continue growth in Europe, China, and India, I would work with Presidents and Managing Directors Simon Cooper and Alex Kyriakidis, area presidents of Asia and the Middle East respectively and I would have them go out into the area and design a Chinese hotel for guests in China or an Indian hotel for guests in India. Knowing and understanding the people and the changing in their lives will help bring about more opportunities to help those in their countries and help tourists visiting these foreign nations.

**WHAT IS IT GOING TO TAKE TO GET THERE?**

There are four things that it is going to take to reach their objectives:
1. Make marketing a strong focus to reach all customer’s real need and wants while knowing their budget.

2. Understanding the people who live abroad and those who travel abroad. Understand what locals love about their homeland and what tourists love about the countries they travel to. Knowing specific information will allow Marriott to focus on getting similar people to come to their hotel rather than going to the dinky Sleep Inn Hotel across the street.

3. Make sure that they have the right people on the bus to balance out the financial key ratios and be sure to do this rather quickly if they want to keep the stockholders happy.

4. Have patience. Change can happen fast, but it is usually not a productive change. Allow the company to transform into something great. This will require time, but it is well worth it.

As Marriott isn’t off terribly, they are sure to have many issues they are working out to be as competitive as possible. These recommendations will smooth that process.
REFERENCES


Cline, R. S. (2010). Hospitality Adjusts To Globalization. Arthur Andersen & CO SC.


