

Bucking the trend

How the Whitbread Hotel Company is flourishing despite troubled times

Sir John Banham, chairman of Whitbread plc, outlines his vision for Whitbread's hotel operations, explains how the company is working in partnership with others in industry, and argues for better governmental recognition and support of the UK hospitality and leisure sector.



enjoy!Whitbread



Total turnover of the UK hospitality, restaurant and catering industry is around £80 billion, employing over 2 million people. Tourism alone accounted for some £60 billion of turnover in 2001, according to the Tourism and Travel Research Institute of Nottingham University Business School. Roughly a third each is derived from domestic tourism, day visits and foreign tourists.

Up until Foot and Mouth (FMD) struck, domestic tourism had been growing at an average of 5.6 per cent a year for the period 1995 to 2000. Over the same period, international tourism receipts grew by just under 2 per cent a year. In terms of employment alone, the sector is more important than construction, electricity, gas, water, mining, agriculture, oil and gas extraction all combined. It is roughly on a par with what the Office of National Statistics describes as 'Public Administration and Defence'. In employment terms, leisure and tourism account for roughly half the employment in financial and business services.

Much more to the point, as recent experience in Cornwall shows, the success of the tourism and leisure industry has massive



knock-on effects on every aspect of the national and rural economy, including the transport infrastructure, local retailing, local agriculture, the environment, house prices and healthcare.

In a fascinating and disturbing study of the impact of FMD on the UK economy - a study which should be required reading for every Member of Parliament, and which the Mother of Parliaments apparently succeeded in burying in its haste to avoid learning

lessons from this tragedy - the Christell De Haan Institute at the University of Nottingham calculates that over the period 2001 to 2004, the total in real value added lost as a result of FMD will exceed £3 billion in tourism alone. Table 1 (overleaf) shows the impact on the ten largest losing sectors in the economy.

Since gross value added across the economy accounts for around £40,000 per person, FMD has cost the economy the equivalent of around 140-150,000 people years of employment, of which tourism probably accounted for around two thirds. It will not have escaped your notice that the impact of FMD on tourism was fully 17 times greater than it was on agriculture.

Whitbread and the hospitality industry

Of course, the industry is not just large and intertwined with the rest of the UK in ways that are not well understood; it is competing in a fiercely competitive international marketplace. Every tourist, wherever they are in the world, is looking for the holiday of a lifetime at a price that they are able and willing to afford. And, as in every



Table 1: Impact of FMD, 2001-04

Reduction in real added value	£ billion
Tourism	3.08
Road Transport	.94
Retail/Wholesale Distribution	.75
Recreation/Welfare Services	.26
Agriculture (incl. meat processing)	.18
Ancillary Transport Services	.15
Real Estate	.10
Alcoholic drink	.10
TOTAL	£5.67

Source: University of Nottingham Business School

competitive market, the winners will have a clear and defensible source of sustainable competitive advantage. In the UK's case, it will not be hours of sunshine or the lowest cost per bed per night.

Fortunately, there are outstanding examples of successful UK companies. To take the example I know best, despite floods, pestilence and the effects of September 11th, Whitbread's Hotel Company has just reported increased operating profits for the year to end February 2003. More prosaically, a decade ago we were at the bottom of the ladder in Whitbread at the time, with profits being no more than about £2 million and having a handful of hotels that had no real branding to speak of. That figure has grown to £132 million in the last year.

In 1993, we set out a very clearly focused strategy that built around two sectors in the market. We had about 10 four-star country club hotels, and budget hotels consisting of 20-odd Travel Inns. (Incidentally, there were just under 30 Travel Inns in comparison to the 90 Travelodges.)

We acquired our Marriott franchise as a deliberate strategic action in 1996 from a company called Scotts Hotels, which had the unique franchise for the UK at that time. It was quite a specific act on our part to form a relationship of franchise partnership with the company that we believed gave us the best global franchise in the UK.

Our vision is to be the UK's leading hotel company by 2005. There is nothing special about 2005, and we would like to achieve this vision sooner if we can, with preference

by our three stakeholder groups consisting of our people, customers and investors. If I may say so, we are well on the path to achieving that vision.

We are on track to be the market leader in the UK. Whichever measure you choose, whether it is number of customers, rooms or sites, Whitbread will be the largest hotel company in Britain this year. Travel Inn is already the number one hotel chain in the UK, and it is the country's fastest growing hotel brand. We open a new room every eight hours on average, which amounts to three per day. We will see the opening of our 300th Travel Inn this summer, which is a 600-room operation at Heathrow and the largest budget hotel in the UK.

Staying ahead of the pack

It is not only the number of sites that sets us apart from the rest. Marriott was voted Hotel Group of the Year by the AA this year, and we are also listed as the 'Best Hotel Company to Work For' by the *Sunday Times*. Marriott is also outperforming the UK market in terms of rooms yield premium. The yield is a combination of occupancy and rate. This effectively means that our Marriott hotels achieve a higher sales per room ratio than that of our average competitor. In fact, we continued to increase our premium to some 23 per cent, even under difficult market conditions during the first half of 2002.

We purchased Swallow Hotels in 2000. Our converted Swallow Hotels are already

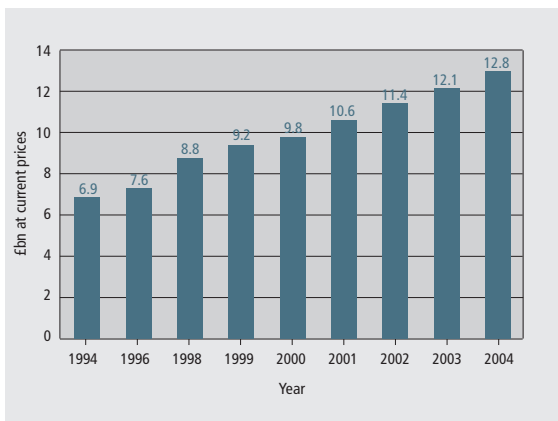
meeting the yield targets that we set when we acquired the Group, and we have achieved a premium of ten per cent above the average in the four-star market during the first six months of 2002. We also saw a four per cent like-for-like sales increase above the market average in the first six months.

Travel Inn reported outstanding results at the half-year mark. Profits saw double-digit growth and sales were up by 6.7 per cent. A well-known commentator remarked after seeing these results that they were unlikely to be surpassed by any other significant lodging brand in the world.

Travel Inn's like-for-like return on capital is some 15 per cent for the full year, which is well above our cost of capital. Travel Inn will be building upon this performance with an ambitious expansion programme. We set ourselves a growth target of 25,000 rooms within five years, and we are currently just over 16,000. With a building cost of some £30,000 per room, you can see why we are growing this brand organically rather than paying for other people's assets.

The actions we have taken to drive more sales in existing sites are paying off. Our cross sales from site to site have improved due to the introduction of a state-of-the-art web-based reservation system just 12 months ago. It is now running cross sales of over £1 million per month from unit to unit. Our total internet bookings are now 15 per cent, which is probably three times higher than that of other hotel chains. We will be putting more money into this distribution

Turnover of the UK hotel market



Source: Catering and allied trades enquiry/Mintel



channel in the months ahead. And I stress here that this capability is only 12 months old.

Our 100 per cent satisfaction guarantee remains the only one of its kind in the UK. If customers are not completely satisfied with their hotel stay, they will receive a full refund under this guarantee. We launched the guarantee in January 2001, and we believe it has been an incredible driver of customer loyalty since then. We experience around 0.5 per cent of invocations, and those customers who do not invoke become, in fact, some of our loyal guests from there on. This gives us a 99.5 per cent rate of satisfaction.

Travel Inn is going from strength to strength. We are well positioned to benefit from a growing market that has not yet reached maturity.

Strong financial performance

So, notwithstanding all the problems already mentioned, the lasting impact of the events of September 11th and the overhanging uncertainties in the Gulf, it is possible to win in an unforgiving - and forgetful - world. Even if the financial markets seem to take an unconscionable time to catch on to what is happening. Of course, this simply provides a buying opportunity for the far-sighted investor.

Indeed, I am told that the reason why Whitbread's share price fell 6 per cent in the first week of January 2003 was because a hedge fund wanted to drive the price down

for their own reasons, so they put out a rumour that Whitbread was about to issue a profit warning because Christmas trading had been disappointing.

I am pleased to report that nothing could be further from the truth. All our brands were in a position of like-for-like sales growth over the Christmas and New Year period. Meanwhile, if the report is true, the Financial Services Authority should be enquiring into what seems to me to be yet another blatant case of market manipulation affecting pension funds and pensioners all over the country.

And it will be much easier for us all if truly effective public/private partnerships are in place where they can do some good: not in politicians' speeches but in the real world, on the ground.

The role of public/private partnerships

The purpose of dwelling on Whitbread's success is to prepare the ground for my final point about public/private partnerships. This is not a ritual whinge from the chairman of a failing company, as I have just outlined. On the contrary, Whitbread can see solid double-digit earnings growth for the foreseeable future, without the need for any acquisitions or partnerships.

However, the tourist industry is an important part of the solution to many of the challenges faced by the rural economy - and has a major impact on the nation's transport infrastructure and the

environment. If every hotel and restaurant sourced more locally, allowing customers to 'eat the view', there would be major benefits for:

- guests, in the form of lower cost and better quality food;
- farmers, in worthwhile margins for producing food;
- the environment, as unnecessary lorry journeys are eliminated;
- the balance of payments, as local produce is substituted for imports from elsewhere in Northern Europe, and indeed from further afield.

It will not have escaped your attention that the Government has an important stake in seeing these benefits achieved. This alone would justify putting in place a wide range of public/private partnerships.

Whitbread already has such partnerships in place in schools and universities, to increase the utilisation of their scarcest of non-renewable resources - land. For example, at Cheam, Whitbread have a partnership with a local girls' school to build and operate one of our David Lloyd Leisure Clubs. We have a national partnership with JobCentrePlus.

Springboard

Whitbread is one of the biggest supporters of Springboard, a charity working to attract more people into the industry by providing careers advice and support, and offering



Whitbread acquired the UK franchise of Marriot from Scotts Hotels

training and educational programmes to young people, as well as those who are unemployed or disadvantaged. As well as helping potential recruits, Springboard educates those in a position of influence such as teachers, careers advisers, and job centre staff. It has a trading subsidiary which seeks to raise the profile of the industry and promote it as a career of choice.

Springboard works closely with a range of partners to deliver an extensive programme of work and these partners include Government, Government agencies, industry bodies, employers, employees, the careers service, JobCentrePlus, schools, colleges and universities.

One of the most high profile activities they coordinate is the Springboard Careers Festival, which is held every 16 months. It is a week of great activity throughout the industry and the country to promote it to potential recruits and those with influence in the field. Thousands of establishments up and down the country throw open their doors and provide a positive insight into the industry through work experience, presentations, job shadowing and awareness raising events.

This year, the Festival is being chaired by our Director of Human Resources, Angie Risley. In a business like ours, it is people that matter. Growth and the financial success of our business depends upon our people being good with customers, working in a team, delivering what they, the

customers, want and need. If we care for our staff they will pass on this care to our guests, give them a great time and profits will be delivered. Whitbread alone is planning to invest significant sums of money over the next three years, opening up thousands of new career opportunities in exciting growth markets.

Ours is the UK's fastest growing industry. We account for one in five new jobs created. With this growth, as well as the seasonal nature of the business, we need to recruit a staggering 700,000 people a year. I think you will agree that this is a staggeringly high figure. We have roughly 100,000 vacancies at any one time.

We also employ a lot of young people and as we know, there are going to be many fewer people around in the years to come. Fifteen years ago, 4.5 million people left school every year. Today, it is nearer 2.5 million and this number is not expected to grow again until 2011.

We are also in a period of relatively full employment and we face strong competition from other industries on the lookout for good recruits. We are going to have to work even harder than before to recruit more first-class people, and to be creative and build working environments that are a fun place to work in. The Festival gives us a perfect opportunity to do something about it.

At Whitbread, we are totally committed to the Festival. This is because it makes sound business sense. There are three exciting

things that we are doing Group-wide to support our General Managers. Firstly, we operate Modern Apprenticeship Schemes. We employ almost 1,000 people - including 500 young chefs - and we work in partnership with 25 colleges across the country. Secondly, we recruit some of the best graduates onto our Graduate Scheme. We brought 50 graduates into Marriott in September 2002 alone. And thirdly, we have just signed a national 'service agreement' with local centres to resource our local needs.

The need for greater support

The case for a much wider partnership between tourism, leisure and the Government is, surely, increased by the significance of the industry for the wider economy. At minimum, I would expect that the Government should do all in its power to avoid damaging the industry's ability to compete internationally and to protect it from the impact of events outside the industry's control such as FMD and, indeed, the events of September 11th.

However, far from working from the very outset in close concert with the industry most affected by FMD, it is difficult with hindsight to see what additional sophistications could have been built into the Government's response that would have done more damage to the UK tourist industry. As a result total tourist expenditure in 2001 was some £7.7 billion below pre

Table 2: Impact of FMD on tourism expenditure, 2001

	% reduction	£ million
Wales	29	855
Scotland	28	1,922
Cumbria	28	265
Northumbria	13	194
South West	11	658
London	10	1,409
Six other regions (average)	6	2,427
TOTALS	11	7,730

Source: University of Nottingham Business School

FMD levels, with some of the poorest parts of the United Kingdom being particularly hard hit, according to the University of Nottingham Business School.

To put these figures in some sort of context, the reductions in the South West represented roughly £330 for every household in the region. In Scotland, Wales and Cumbria, the figure would have been closer to £1,000 for every household in the region. Contrast this with the reaction of the US Congress and Administration to the events of September 11th.

Tourism demand is particularly sensitive to security and health concerns. The list of cases where tourism demand has taken a sudden and unexpected downturn is long, and includes the effects of the Gulf War on tourism in the Middle East, the Mediterranean and other European countries, terrorist attacks at Luxor in Egypt in 1997, the Kosovo conflict in 1999, the effects of FMD in the UK in 2001 and, most recently, the effects of the September 11th terrorist attacks in the US. In most of these cases, where governments have actually recognised the importance of the tourism downturn and acknowledged the need for a policy response, they have operated in an environment where very little research into the merits of offsetting policy responses has been conducted.

The case of the September 11th terrorist attacks in the US is a notable example of the difficult decisions that policy-makers confront. Following those events, falls in

income and employment spread beyond travel and tourism throughout the entire US economy. Federal Government response was swift, with the Air Transportation Safety and System Stabilisation Act (ATSSSA) being passed on September 22 - i.e. within ten days - a benchmark indicator of a truly effective public/private partnership.

This Act provided Federal Government loans and compensation to airlines, as well as other financial and safety measures. The Travel Industry Recovery Coalition, comprising 25 tourism and travel industry organisations, proposed a 'Six-Point Plan' aimed at restoring the levels of activity in the travel and tourism industry in the US to those existing prior to the September 11th events. The Plan consisted of a series of policy measures covering traveller and workforce tax credits, business loan programmes, the extension of allowances for net operating losses, and Government and private sector funding for advertising to stimulate travel to and in the US.

Contrast this response to the way our own Government and Parliament have reacted (or, to be more precise, have failed to react) to the combined impact of FMD and September 11th on our industry. If a genuine public/private partnership had been in place, the impact would have at least been moderated. The study cited earlier suggests that the US measures, which cost a total of some \$5 billion, had a major impact in moderating the adverse effects of September 11th. In terms of constant \$GDP,

without policy responses September 11th was calculated to have seen a reduction of some \$27 billion; including the policy responses, the reduction was some \$9 billion. Once again, the excellent work of the University of Nottingham Business School would repay far wider reading.

Fortunately, there is an opportunity for Parliament and the Government to learn from the past and to demonstrate that all the warm words about partnerships add up to more than verbiage. Serious Government support for a winning London bid to host the Olympic Games in 2012 would be a dramatic - not to say concrete - way to support UK tourism and London and to demonstrate that Britain can win against the stiffest international competition: likely candidates include New York, Moscow, Paris, Seville and a city in Germany.

Who knows, we might end up with a Cabinet Minister with responsibility for delivering a real public/private partnership with the tourist industry, from which literally millions would benefit. Unfortunately, I am not holding my breath.