

Pioneering hotel consortium Leading Hotels of the World is broadening its horizons after 75 years in the business. Through joint ventures and strategic alliances it aims to become a complete luxury service provider. *Christian Sylt* reports

# LEADING THE FIELD

Leading Hotels of the World (LHW) is the oldest hotel consortium and one of the most progressive. It has spent the past decade transforming itself from a company processing reservations into a luxury service provider with offerings as diverse as hospitality training, insurance and even finance for hotel acquisition. LHW's goal is to become a luxury lifestyle company. And with a brand which is almost as recognisable as some of the properties it represents, LHW is already well on its way.

From 24 offices around the world LHW looks over a prestigious portfolio of 420 hotels, including London's Dorchester, the Cipriani in Venice, the Oriental in Bangkok and the Regent Beverly Wilshire in Beverly Hills. It's a select group, with only 25 new members accepted last year from a pool of 100 applications.

"We don't solicit applications," says LHW's chief executive Paul McManus from his New York office.

After a limited number of hotels have been chosen from the applications submitted, the company carries out an incognito rigorous inspection of the properties, their facilities and guest services (see panel).

Like all exclusive clubs, not only are LHW's conditions of entry exacting but membership is far from free. Three costs are involved. First, hotels must foot an initiation fee of \$50,000 (£28,155). Then an annual marketing fee of \$325 (£183) per bedroom - capped at 300 rooms - is charged, increasing 4% annually. Finally, LHW takes what McManus calls a "success fee", which amounts to 10% of room reservation revenue. Is it worth it?

"We drive the highest rate in the industry," claims McManus. LHW's average corporate rate across its portfolio last year was an impressive \$340 [£192], but revenue isn't the only thing which soars for hotels by being on LHW's network. "In some of our hotels we generate 40% or 50% of their occupancy," says McManus, although he adds that across the board this averages out at 15%.

LHW creates about \$560m (£315m) in revenue for its members annually, but very little of that becomes profit for the consortium because of the overheads of operating an international reservations network and offices around the world, says McManus.

So when he became CEO in 1998 he embarked on a scheme to diversify LHW's revenue streams. Consultants Horwath & Horwath found that while the LHW brand was the company's strongest asset, it needed to carry out major changes.

Its core business needed to move away from reservations, which provide fairly static revenue flows, and build on the LHW name by creating brand extensions. Finally, LHW should create joint-venture opportunities to offer additional revenue streams and add value for members.

Realising that the ability to maintain a first-rate call centre was best left to a specialist, LHW outsourced its reservations needs to Pegasus Solutions.

Then the marketing department was greatly expanded. McManus says that 60% of LHW's revenues are ploughed into marketing now.

In 1999 the Leading Small Hotels of the World was inaugurated. Only properties with 100 bedrooms or fewer are accepted into this branch. Membership was made up of 23 hotels in 1999 but currently covers 153 members. The initiation fee for the group is half that of larger leading hotels. Sales at the Lancaster in Paris increased by 25% after joining Leading Small Hotels, and London's fashionable One Aldwych saw a threefold increase in business.

McManus's master plan is to create a luxury brand network with the world's wealthiest customers on its client list. "We get to know our customer from a number of different angles, not just in terms of their preferences and room styles but also their related interests," he says. So in 2000 he began to build the Luxury Alliance, a marketing group for providers of luxury goods and services. ▶





## SMALL LUXURY HOTELS

**Members:** 309

**Average number of rooms per member:** 55

**Applications accepted in 2004:** 44

**Applications rejected in 2004:** 150

**Admission fee:** £15,000

**Minimum commitment:** three years

**Annual charge:** £10,750 for the first 20 bedrooms and further £130 per room up to a maximum of 150 bedrooms

**Levy on reservations processed through the SLH central reservation service (online or through the group's GDS code):** 6%

**Levy on bookings over the telephone on SLH voice-reservation service:** 8%

**Annual database fee:** £1,620

**Additional costs:** members must provide "barter rooms" free of charge for press visits and competition prizes

## RELAIS & CHATEAUX

**Members:** 440

**Members leaving for quality reasons in 2005:** 34

**Admission fee:** €10,000 (£6,759) excluding tax

**Annual charge:** €13,000 (£8,787) depending on size

**Minimum number of bedrooms:** 100

**Minimum star rating:** four

**Membership requirements:** high-quality restaurant; at least one year's operation under the same owner or general manager; no membership of another marketing organisation or competing hotel association

**Membership procedure:** application form signed by the owner and supported by brochures, high-quality photos, press articles, etc; anonymous inspection with 400-page questionnaire; one anonymous visit to each member every three years

**Business generated for all members through the Relais & Châteaux central reservations system between 1 July 2003 and 30 June 2004:** €22.3m (£15.1m) (75,257 bednights)

Opened in 1841 and owned by the same family for the past 100 years, the 395-bedroom Bayerischer Hof in Munich is a member of Leading Hotels of the World

**The Relais & Châteaux hotel, Casa de Carmona in Seville, was originally a 16th-century palace**

◀ The first partnership was with the French hospitality company Relais & Châteaux. Crystal Cruises, Silversea Cruises, luxury travel agent Abercrombie & Kent and Orient-Express Trains have since joined.

"The customer who takes a Silversea cruise is also a customer of LHW, a customer of Relais & Châteaux, and a customer of some very fine retail store names," says McManus. This cross-promotional marketing gives LHW's members access to a database of ideally targeted affluent guests.

LHW has launched a total of nine joint ventures, and each costs approximately \$100,000 (£56,310) to set up, says McManus. He doesn't reveal the exact charges that are levied or the revenue generated from each one but admits that "all of the ventures are profitable".

For example, Leading Financial Services provides processing of travel agents' commissions, Leading Group Sales plans meetings and also runs training programmes at the Hotelschool in the Hague.

The joint ventures currently contribute about 14% of the company's revenue, but McManus hopes that in five years this will rise to about 35%. As they require little input from LHW now they've been established, the level of their success simply depends on "the extent to which members participate", says McManus.

But his most ambitious move has been to form with New York's Trinity Hotel Investors a fund for acquiring family-owned hotels which might otherwise get snapped up by chains. "Had the trust been in existence at the time the Savoy Group was sold to the US property firm Blackstone, we might have been in a position to bid for those assets," explains McManus.

McManus usually knows about properties for sale before they hit the market. "These are not hotels that will be promoted for sale by brokers; rather they are likely to be quiet, 'inside' deals," he says. This opens the door for LHW to offer an attractive price without being subject to market pressures and bidding competition, and it is exactly how it acquired its first hotel, the 65-bedroom Cadogan in London, for an estimated £14m in 2003.

McManus hopes to acquire 16 hotels and raise \$1b (£563m) by leveraging against the acquired assets. It's a bold aim, and LHW is a long way off reaching it. But with 75 years under its belt, LHW isn't a company that rushes into things.

## FURTHER INFORMATION

www.lhw.com  
www.slh.com  
www.relaisandchateaux.com  
www.distinctionworld.com  
www.luxurycollection.com  
www.preferredhotels.com  
www.carinocollection.com  
www.summithotels.com  
www.johansens.com  
www.bestloved.com



## THINKING OF JOINING A HOTEL MARKETING CONSORTIUM?

Leading Hotels of the World (LHW) applications are not solicited. Hotels hoping to join the organisation must apply and already be established as a five-star property. The few hotels chosen from the hundreds of applications it receives will undergo an incognito inspection which lasts 48 hours.

LHW's inspectors have a list of 1,500 points to check, ranging from proper hangers in the closet to whether a bowl for shells is provided with nuts at the bar. LHW doesn't say exactly what score is required, and members are periodically scrutinised throughout their membership.

Similarly, Preferred Hotels, another global consortium of luxury properties, has 1,600 application criteria. Inspectors for Small Luxury Hotels, which has 350 hotels averaging \$317 (£179) per night rates, must invent a problem to judge how the staff deal with it.

"A greater number of independent hotels are finding that by joining consortia they can compete reasonably well with some of the larger brands," says Michael Hirst, former chairman and CEO of Hilton International. "A lot of the customers are looking for individuality, and I think a lot of them are finding this in consortia outside brand envelopes," he adds.

For Trevor Ward, managing director of the W Hospitality Group, the exposure and economies of scale as well as "obtaining a level of [soft] branding at a lower cost than through a franchise" are the key benefits of joining a consortium.

But there are downsides. "Loss of independence may be against the ingrained culture of the operation. And the imagery of the hotel is delegated to a third party who

may not fully understand the 'essence' of the hotel." However, he adds that these same risks are apparent whenever hotels outsource to third parties.

Ward suggests that smaller, owner-operated properties will benefit most from consortium membership, since larger hotels have a greater ability to find their own marketing.

Nonetheless, he says that for specific coverage, such as representation to major international accounts and at trade shows, even large properties can benefit from membership.

Once an owner has made the decision to join a consortium, Ward says, experience is the best litmus test and so owners should visit existing members and talk to other members' owners.

As Europe has two independent hotels to every chain hotel, Hirst says consortia membership still has much growth in it. This is no bad thing. "Most consortia confer a status on a hotel, which is an excellent thing from an industry perspective," he says.

### CONSORTIA CHECK LIST

- Are the other hotels in the consortium ones that you want to be alongside?
- How does the consortium set quality levels?
- How many members are recruited each year?
- How many are expelled?
- How many leave of their own accord, and why?
- Will the consortium generate business that you cannot generate yourself?
- Does the consortium have penetration in the markets that you want to move into?
- How much does it cost to join?