

As hotel companies across Europe pawn their properties in sale and leaseback deals to ride through the slump in business, Leading Hotels of the World is on the verge of making the first purchase in its 75-year history. Even more eye-opening is the fact that Leading isn't a chain at all but rather a central reservations system for luxury hotels.

Reservations with a difference

By Christian Sylt in London

Leading Hotels of the World is more than just a hotel booking company. Not only is it the oldest of its kind – it is also the only one with a brand that is almost as recognisable as some of the properties it represents. Now Leading has bold plans to turn itself into the next luxury lifestyle company.

Leading began life as a global reservation service for European hotels. But since its launch 75 years ago it has evolved into an organisation that represents boutiques as well as larger hotels and has teamed up with renowned retailers, cruises and the Orient Express to create a single system catering for the luxury lifestyle needs of its affluent customers. In fact, it has shifted focus so much that it has even outsourced its reservation systems.

This is a company built on the strength of its members and Leading offers hotels much more than just booking facilities. To save members contracting in other companies, Leading provides processing of travel agency commission, public relations, quality assurance, meeting planning and even staff training services. Its latest project will take it almost as far from its origins as is possible as the company is now set to acquire member hotels.

Leading has such belief in its brand that it's even taking the unique step of offering shares in the company to member hotels. The current shareholder base is built up from 70 European hotels, including the founders that set up the company, and although Leading is based in the US, its origins are firmly rooted on this side of the Atlantic.

The company was established in 1928 by 38 influential and forward-thinking European hoteliers who recognised the growing importance of establishing direct contact with the travelling public and travel agencies in the North American market. They opened an office in New York, where the company is now headquartered. Among the initial members were grande dames such as the Hotel Negresco in Nice, the Mena House in Cairo and the King David Hotel in Jerusalem.

By the end of the 1960s, Leading had grown to represent 60 hotels, all still in Europe, but by early 1971 the demand from increased numbers of international luxury travellers became impossible to ignore. That year the company opened its doors to new members from around the globe.

From 18 offices around the world, Leading now looks over a prodigious portfolio of 395 hotels including The Ritz in London, The Cipriani in Venice, The Oriental in Bangkok and The Regent Beverly Wilshire in Beverly Hills. And although there are presently over 10 times more hotels on its books than when it was first founded, Leading's commitment to quality remains unchanged. Its business model is built on a database of rich, regular guests who are attracted to the luxury of Leading's members and maintaining these standards is the company's chief challenge.

"We don't solicit applications," says Leading's chief executive Paul McManus. Hotels hoping to join the company have to apply for admission and must already comply with standards that are generally accepted within the industry to be 'five star' or 'superior deluxe'. But that's where Leading's adherence to accepted convention in its vetting process ends.

After a limited number of hotels have been chosen from applications submitted, the company carries out a rigorous, incognito inspection of the properties, their facilities and guest services. Like all exclusive clubs, not only are Leading's conditions of entry exacting but membership is also far from free. Three costs are involved. Firstly, hotels must foot an initiation fee of €50,000. Secondly, an annual marketing fee is charged, at €280 per room (capped at 300 rooms), and thirdly, Leading takes what McManus calls a 'success fee', which amounts to seven per cent of reservation revenue.

One of the company's latest signings, Sir Rocco Forte's Hotel Amigo in Brussels, has 165 rooms, which would net Leading €46,200. But its real money is made on reservations – the Amigo's annual average revenue per available room (RevPAR) of around €175 would yield €10.5 million. If Leading is >

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Paul McManus is chief executive of Leading Hotels of the World and a purveyor of prestige properties.





◀ responsible for 20 per cent of this and then takes a seven per cent share of the result, it will bring in €147,500. Added to the initiation fee, this leaves Leading with a grand total of around €243,700 after only a year of having one new member.

Because Leading can hardly be described as a cut-price club to join, it would not be surprising to find it struggling to attract applicants. But the reverse is true. Strangely, the recent slump in the hospitality sector brought with it a profitable twist of fate for Leading. In the six months after 11th September 2001, the company had more applications than in any other six months in its history, and 2001 was its best ever year in terms of sales and revenue.

McManus traces the reason for this to the boom that predated the sector's economic downturn and saw an unbridled amount of mergers and acquisitions. "So many hotels were gobbled up by companies with undefined standards that after a period of operation, they've found that the quickest way to identify themselves is through an affiliation with Leading," he says. Independent hotels have even chosen Leading in favour of becoming part of a chain and thereby suffering the loss of individual appeal. "They want the Leading plaque on the door so that while they're building their own brand, they're able to back it up," says McManus.

Leading's heritage is another of its hallmarks. Over the past 75 years it has been one of the only names that could consistently be trusted to represent the most luxurious hotels. Not only have hoteliers introduced new chains, they have also launched new types of hotels, such as design or boutique brands. But these have served only to confuse consumers. "The customer wants that assurance of quality regardless of the style of property," says McManus. "The Leading association tells the customer that this is the highest level of hotel that exists."

In 2001, Leading had 170 applications and took on 40 new properties, but in 2002, although it received more than 125 applications, it accepted only 20 new hotels.

However, Leading has also lost out along the way. All the hotels in the Savoy chain, including its world-famous London flagship, pulled out in 2001. Starwood's Luxury Collection and St Regis brands did the same. In so doing, Leading said goodbye to New York's landmark St Regis Hotel, Sardinia's stunning resort Cala di Volpe and London's luxury Lanesborough Hotel. With a history spanning more than 110 years, Savoy's own brand is even better established than Leading's so the extra edge it provides in attracting guests is of less value. And the Starwood network, the world's eighth largest hotel company, with properties across the globe, serves to promote its own hotels.

The prestige of representing the renowned Raffles Hotel in Singapore has also eluded Leading in its 75-year history.

McManus is adamant that despite the downturn, there is another reason for more hotels than ever applying to Leading. "They're coming to us because they're hurting," he says. "They want access to the luxury market and so look for a brand that stands out."

The luxury hotels sector has been better insulated against the downturn than the rest of the market, with customers who in the main have a long-established high net worth. As McManus says: "They almost consider it a birthright to travel," whether it be by private jet or whatever means necessary to avoid the fears that have beset the bulk of travellers. With this almost automatic access to a cachet

of wealthy customers, who trust its renowned reputation, Leading's hotels have virtually carte blanche on how much they charge.

"We drive the highest rate in the industry," says McManus. Leading's average corporate rate across its portfolio in 2002 was an impressive €378, more than double the average room rate for London in 2001. McManus adds that the average rate booked through its exclusive Leader's Club guest recognition programme is €100 higher. Although the benefits of this scheme are largely standard fare, such as in-room gifts and late check-out privileges, membership is by invitation only and guests must have stayed in at least five Leading hotels as well as have sponsorship from a Leading hotel's general manager.

Average rate isn't the only thing that soars for hotels on Leading's network. "In some of our hotels we generate 80 or 90 per cent of their occupancy," says McManus, although he adds that across the board this averages out at around 10 to 20 per cent.

Leading creates around €360 million in annual revenue for its members. McManus believes reservation production in 2002 will be about five per cent up on 2001 as more guests turn to the Leading name to ensure they get luxury for their money. Although the company appears to be an anomaly, against the backdrop of a declining industry, McManus cautiously adds that despite this increase, "what is down this year is hotel revenue because the average rate is not as high".

The company's website has more than taken up this slack, however. Luxury hotels have turned to the internet to squeeze as much occupancy as possible out of the ashes of a badly bruised market. Bjorn Hanson, head of the hotel consulting practice at PricewaterhouseCoopers, admits that "the internet no longer has the image of being just for price-sensitive travellers looking for cheap rooms". Travellers with tight budgets are certainly in the wrong place on Leading's site, where the average booking is €850 for a two-day stay.

Online bookings for Leading Hotels totalled €12.8 million in 2001 and McManus says this web business is growing at 208 per cent year-on-year. Crucially, online bookings are a minimum

of €10 higher than through traditional booking sources. Taking into account that the site receives around four million page views per month, and to date has received approximately 2,000 bookings, this already amounts to a bonus for Leading of €20,000 on top of its typical profits – simply because it has an online reservation system.

Launched four years ago, the internet site now takes 12 per cent of the company's bookings. McManus predicts that within five ▶

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The elegant Cipriani Hotel in Venice is one of Leading's portfolio of nearly 400 hotels worldwide.



years, the internet will take 25 per cent of bookings – and he is putting his money where his mouth is.

"The profit margins are little or nothing in this business owing to the enormous overheads of operating an international reservation network and 18 offices around the world," he says. So to be more liberated from physical operating costs, McManus intends to invest €20 million developing the company's internet site to create an even more prosperous future for the reservation business that built Leading's reputation. However, to raise the capital, he is going right back to the company's core.

In November 2001, Leading began the process of undergoing a private placement by offering shares in the company to the existing founder hotels and others that have since joined. Leading currently has 70 shareholders and McManus says that the first phase of the placement was completely subscribed. The second phase began in October 2002, when client hotels were invited to purchase shares. This phase is due to close on 31st December, at which time McManus hopes to have raised €20 million from a base of 200 shareholders. Thus by paying an average of €100,000, shareholders can then begin to recoup their costs of annual membership to Leading through their stake in the company.

The current development comes after Leading employed consultants Horwath & Horwath in 1997 to help nurture the company's potential and take it to the next stage. The consultants confirmed McManus's views of the way forward and found that while the Leading brand was the company's strongest asset, it needed to carry out three major changes. It recommended that Leading evolve its core business away from reservations and build on the Leading name by creating brand extensions. The consultants also said Leading should create joint venture opportunities to offer additional revenue streams, add value for

membership and future-proof itself. To concentrate on these challenges, Leading implemented radical changes in its organisation. Realising that the ability to maintain a first-rate call centre was best left to a specialist, Leading outsourced its reservations needs to Pegasus Solutions, a top global provider of hotel industry technology. And in preparation for several successful marketing programmes, designed to drive even more business to member hotels, the marketing department was greatly expanded. McManus says marketing is now so important that 60 per cent of the company's revenues are ploughed into it.

Then, in September 1999, McManus masterminded the launch of Leading's first brand extension when Leading Small Hotels of the World was inaugurated. Leading wanted to clear up confusion in the marketplace by paying homage to the proliferation and popularity of boutique hotels, bringing them all under one banner with the same standards as main members and a tailored marketing approach. Only properties with 100 rooms or less are accepted into this branch, which by offering the opportunity for worldwide global distribution under an established luxury brand name made it an incredibly attractive concept.

Leading Small Hotels' membership comprised 23 hotels in 1999, but by the end of its first year that number had tripled to 69, and although the brand is still in its infancy, it currently covers 84 members.

The initiation fee for the Small Hotels group is half that of larger Leading hotels, but the benefits are equally appealing. Sales at The Lancaster in Paris increased by 25 per cent after joining Leading Small Hotels and London's fashionable One Aldwych has seen

a three-fold increase in business. The Cuisin-Art Resort & Spa in Anguilla specifically chose to open as an affiliate because of the considerable benefits offered.

In fact, the brand has been so successful that insiders believe it could spawn successor schemes covering spa and resort properties. In addition, as Leading is led down the path of providing a wider range of luxury destinations, McManus has begun to branch out into an even wider range of services.

His masterplan is not simply to turn Leading into another luxury brand, but rather to create a luxury brand network, with the world's wealthiest customers already on its client list. "We get to know our customers from a number of different angles not just in terms of their preferences and room styles but also their related interests," he says. And so in August 2000 he began to build the Luxury Alliance, an empire that brings together the world's finest providers of luxury goods and services.

The first partnership of this development was with French hospitality company Relais & Châteaux. As well as operating hotels around the globe, Relais also has private villas, which complements Leading's portfolio. New members to the alliance have maintained the fine yardstick set by the founding company and include Crystal Cruises, Silversea Cruises and luxury travel agent Abercrombie & Kent. Orient-Express Trains is one of the latest recruits, which isn't surprising since Leading already represents many of the properties in its hotels collection.

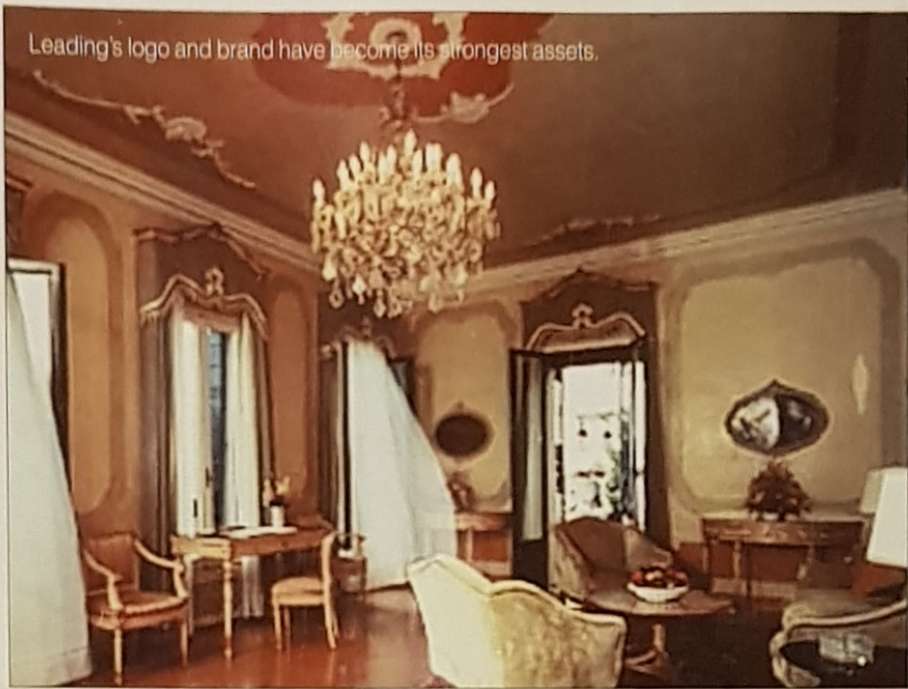
McManus enthuses about these alliances but, as many travellers know from similar schemes run by airlines, there is often little benefit passed on to the customers. The most prominent public face of the Luxury Alliance is the new joint website and although this offers a central hub for all the partners and their promotions, it currently has little added value. However, the value of these partnerships to the companies involved is the information they provide about their customers.

"The customer who takes a Silversea cruise is also a customer of Leading, a customer of Relais & Chateau, and a customer of some very fine retail store names," says McManus. "What we do in the Luxury Alliance is cooperatively concentrate on the customer's travel buying habits and cater to them." This effectively translates as the dawn of cross-promotional marketing campaigns by the biggest companies in the luxury lifestyle industry. And it doesn't stop at travel.

Leading has joined forces with luxury goods giant LVMH, as eLUXURY – the website that sells LVMH's leading brands such as Louis Vuitton, DKNY and Bvlgari – has become a Luxury Alliance partner. To comprehensively cover this sector, Leading has also enlisted Vivre, an online and catalogue

McManus is building up a €700 million fund for Leading to either buy hotels outright or use it as mezzanine financing or sliver equity for purchases.

Leading's logo and brand have become its strongest assets.



< company specialising in the same sector as eLUXURY, but selling competing brands.

Through these developments, McManus is redefining what members expect from companies that once simply booked room nights and delivered marketing assistance. He is proud of what he has achieved, and rightly so, as he says: "Leading's outlook is very different from the traditional, somewhat myopic hotel view of customers."

In 2000, the company completed the third suggestion made by consultants Horwath & Horwath three years previously and embarked on joint ventures to maximise revenue for members. Leading Financial Services was launched in conjunction with Pegasus to provide the processing of travel agent commission in almost every traded currency in the world, allowing member hotels to reallocate resources from their accounting departments. Likewise, Leading Marketing Services offers a full advertising, marketing and public relations service targeted at affluent consumers, while Leading Group Sales plans and tailors meeting programmes for groups of 10 or more, saving the hotel management the need to do this itself or enlist a contract company.

It has even set up a Leading Career Services joint venture to take the strain off member hotels when they are looking for new staff by providing all the necessary employment and recruiting services. And since the heart of a hotel is its staff, Leading's members need never be without – the company has linked up with the Hotelschool in the Hague, to form the Leading Hotel Schools of the World. This joint venture promises programme development and training for hotel schools around the world to ensure they are up to Leading's high standards.

Taking its renown for the highest level of luxury to the ultimate extent, Leading is branching out even further. "We are also about

to enter an agreement to inspect our first cruise line," says McManus. "We have proposals out to two airlines, two car rental companies and we had a very high-end jewellery retailer ask us if we would evaluate it." So it seems only a matter of time before large numbers of people will be booking flights through Leading Airlines of the World, and driving in a rental car from Leading Car Rental Companies of the World to relax in one of the Leading Spas of the World.

The advantage of the joint venture model is that by teaming up with the best specialists, Leading is able to achieve the highest standards in industry-related fields, which will then drive revenue to the company. Each project costs approximately €100,000 to set up and although McManus doesn't reveal the exact charges that are levied or the revenue generated from each one, he admits that all the ventures are profitable. They currently contribute about 20 per cent of the company's revenue but McManus is confident that because they are all indispensable to his members, in five years' time they should be contributing more than 50 per cent of turnover. As these partnerships require little input from Leading centrally, now that they have been established, how successful they are depends simply on the extent to which members participate. But the latest joint venture that Leading has so far established is perhaps the most valuable and has been the most expensive to create.

McManus believes Leading has bucked the tumbling tourism trend so successfully that, while the majority of hotel chains are selling off their properties to pare down debt or fund expansion and provide plans for the future to

bolster their share price, Leading is ready to buy bricks and mortar.

In partnership with New York's Trinity Investment, McManus is building up the Leading Trust, a fund that he hopes will total €700 million when it is finally complete in the first quarter of 2003. The capital will enable Leading to either buy hotels outright or use it as mezzanine financing or sliver equity for purchases. "We have a number of family-owned hotel assets in our group, where maybe the owner or founder would like to retire and is concerned about who will continue to operate this very traditional hotel. They're probably individuals who may retire in that community so they want to be proud of who they turn over their hotel to. Therein lies the opportunity for us to acquire some of these trophy hotels," says McManus.

Hotels such as St Moritz's sumptuous ski resort Badrutt's Palace, which has been owned by the Badrutt family for generations, could benefit from the fund, which McManus hopes could even be used for the renovation and upgrading of member hotels. "We're really protecting the integrity of the Leading portfolio,"

The Leading Hotels of the World®

lio," he says. But he stresses that becoming the 'Leading Hotel Builder in the World' isn't on the agenda at the moment as the fund isn't currently intended for development from scratch. That said, he doesn't rule it out for the future.

In years to come the fund could even be a greater asset to Leading than its brand. Over the long term, little money is lost by investing in property, particularly buildings with an illustrious heritage. And, unlike the majority of hotel chains in the industry, Leading hasn't suffered dramatically due to the decline so it is in a strong position to purchase.

McManus says that setting up the fund has involved considerable legal expenses and seed capital, but it should more than cover this. Provided the fund is filled to his expectations, €700 million would be enough to buy four or five properties outright. McManus says that the first purchase could come any time now as Leading currently has offers out on two hotels. And over the next five years he is hoping to yield a 25 per cent internal rate of return from the Leading Trust, which would give approximately €175 million and the opportunity to buy another hotel.

As the supreme standard-bearer of luxury in the hotel industry, Leading has been investing in the future of its members since it was founded. Now, as it begins to buy properties, McManus hopes to continue this no matter how turbulent the marketplace may be. And diversifying its business based on the power behind its brand holds a lesson for many companies, as Leading has identified its strong points and seized on them. For the time being at least, it is difficult to imagine when Leading won't be the leader.