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Customization vs. Standardization in Global Hotel Expansion

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PART ONE

Introduction

There are numerous challenges that an international hotel chain faces when opening a property in a foreign country. The company's response to those challenges will determine the new hotel's overall success rate. This will in turn directly affect the corporation's profit levels.

The critical issue of this project is to define to what extent the world's largest hotel chains utilize the theories of customization and standardization when designing a business strategy for a new property. In order to truly grasp the concept, it is essential for one to value the importance of brand standard in regards to globalization in the hospitality industry. By establishing solid company standards, each hotel chain develops its own brand name. Proper analysis of brand value will contribute to the development of an efficient marketing mix each time a hotel chain considers opening a new property in another country.

The focus of the project is primarily on the luxury market segment. There are only a handful of hotel brands that belong to that category: Four Seasons, Ritz Carlton (Marriott), InterContinental and Crown Plaza (ICH Group), Hilton, Hyatt (Park Hyatt and Grand Hyatt), Mandarin Oriental, Sofitel, and Starwood (W, St. Regis, Sheraton and Luxury Collection). The majority of the world's largest hotel corporations have multiple brands in their portfolios. For instance, Marriott Corporation owns and operates 15 different hotel brands. As a general rule, whether hotel corporations will decide to standardize or customize their services and products when expanding globally is based on an analysis of different levels of business and operational factors.

Purpose

The purpose of this paper is to create a unique manual that will identify the key challenges of expanding a hotel chain internationally. The researcher will provide an answer to

the following question: “What is the appropriate mix of standardization and customization when introducing a new hotel product and services in a foreign country?”

Justification

This paper will provide methods of expanding and explain the importance of branding in the luxury hotel segment. It will discuss the organizational differences between corporate ownership and franchises. The paper will also discuss feasibility studies as an effective tool of analyzing different regulations, customs and laws that generally apply to foreign countries. Some of the aspects include: financial, political and environmental regulations, currencies, human management, etc.

Constraints

People in different countries have different needs and values. Therefore, the paper will present studies that identify differentiating factors that hotel managers have to take into consideration when opening a hotel in a culturally diverse country.

Glossary

“Brand” is defined as “a product from a known organization” (Dunning & McQueen, 1982). In particular, the company name is often referred to as brand in the hotel industry.

PART TWO

Literature Review

Introduction

This section of the paper will provide an in-depth analysis of literature available on the topic. First part of the paper will illuminate on the importance of branding and how it determines the success of the new property in a foreign country. Next, the paper will discuss different foreign market entry strategies, including wholly owned subsidiaries, franchising and operating through management contracts. Finally, part two of the paper will present the results of feasibility studies and it will explain the possible advantages and disadvantages of various corporate organizational structures.

Importance of Branding

Building a brand is a long-term process and it requires the dedication of everyone in the company to make it successful. The importance of branding begins with creating a simple name for the company. Marketers need to make sure that the name can be associated with a positive value, characteristics, or position. Consumers tend to choose the products or services to which they can associate positive qualities (Fuchs, 2006). For instance, in the hospitality industry, the Ritz Carlton brand symbolizes high-end properties, elevated quality of service and a unique guest experience. Brand name and brand image are essentially two factors that differentiate companies which operate in the same industry and market. Therefore, the brand name must be unique. If a name is too close to another company's, then consumers are more likely to mix them up, which leads to reduced revenue. Establishing a successful brand name may result in 10-20% increase in net profits (Fuchs, 2006). Customers' opinions about the product or service, a concept known as brand attitudes, can add value to the organization since the brand determines the company's status within an industry (Anonymous, 2005).

In contrast, companies should not be afraid to make changes to better the brand and reflect shifts in the market. Sometimes, individual properties may change ownership and therefore its name, better known as re-branding. For instance, Sofitel brand (part of Accor Hotels) decided to expand its presence in the UK by re-branding Le Meridien Gatwick into Sofitel London Gatwick. The 500-room hotel is currently undergoing a major remodeling and will be operated as a franchise by Arora International Hotels (Hotel Online, 2005). In this case, Arora will utilize Sofitel's strong brand name to attract a new client base while trying to retain the existing one.

Those companies that have established strong national brands seek to use them globally with an intention of increasing profits. Once it establishes a global brand, the company has successfully created a unique international image that can lead to increased efficiency through branded marketing efforts and cost savings on a larger scale. What companies need to have in mind when introducing their products or services to global markets is consumer stereotypes. In regards to the country-of-origin-effect (COE), certain product categories are perceived to be the best if coming from a specific country, thus making it very hard for a foreign company to penetrate the market with the same or similar product. For instance, English tea, French perfume, Italian leather, Chinese silk, are all examples of products that are thought to be of the highest quality in their respective market categories. It is sometimes very hard for an international product to break those stereotypes and to compete with a domestic product. Furthermore, national pride could be an important factor. For example, in Russia, there are two types of products, "ours" and "theirs" (Cateora & Graham, 2002). All these examples could play a more or less important role in the hospitality industry, depending on the country and target market.

With an increase in international travel, the competition among international hotel corporations is becoming progressively fiercer. Those tourists that travel to foreign countries tend to familiarize with (and likely stay in) the known hotel brands and their standardized quality of service.¹ Hotel chains are motivated to maintain a high rate of global expansion as a key marketing strategy of creating brand loyalty (King, 2005). By doing so, they will not only satisfy the market needs of those people traveling to foreign countries, but will also introduce the brand to domestic customers. Global hotel corporations hope that domestic customers will familiarize with the brand when they travel abroad, thus creating marginal benefits to the company (Hong, Jones, & Song, 1999).

Another significant issue is the concept of globalization. In a sense, the primary goal of globalization is to create an integrated world economy. The two main components are: (a) globalization of markets (creation of a single marketplace from traditionally diverse national markets) and (b) globalization of production (improving the costs and quality of production by benefiting from differences in national goods or services). In a global market setting, it is usually the same key players competing against each other in country after country. As one company enters a new market, it gains an initial market share advantage. When the competition follows, the economies of scale improve and the market slowly becomes homogenous (Hill, 2003). There are numerous examples of global competition in today's business world; Coca-Cola vs. Pepsi, Nike vs. Adidas vs. Reebok, etc. In the hospitality industry, a good example is Hyatt Regency vs. Ritz Carlton vs. Four Seasons in the high-end market segment.

Potential benefits of globalization include the collapse of international barriers, stirred economic growth, and global prosperity. The theory of global marketing orientation suggests that companies are seeking for efficiencies of scale by developing a standardized marketing mix

across various international markets whenever it is cost and culturally effective. The market in this case is the world as a whole and hospitality companies seek to create a global market segment by identifying different groups of customers with similar needs (Cateora & Graham, 2002).

Foreign Market Entry Strategies

There are three basic ways that international hotel chains can expand business outside their home countries: (a) owning subsidiaries, (b) franchising, and (c) operating through management contracts (Carter, 1997). The portion of ownership affects sales expansion and market diversification because it varies the risk the hotel chains take. If hotel chains enter foreign markets only as operators, the hotels cannot expand their brand recognition (i.e. that property would represent the owner's brand and not the brand of the operator). On the other hand, hotel companies can expand their brand recognition by entering a foreign market as franchisors or operators who use their own brand name. In addition, the extent to which the hotel chains centralize functions affects economies of scale as a whole. The features, advantages and disadvantages of the three ways of expanding business for the hotel chains are described below.

Owning subsidiaries. Having wholly-owned subsidiaries is straightforward. Hotel chains expand their business by using their own capital. By taking the whole risk of overseas properties, the hotels entirely control these businesses operationally and strategically. By leasing the properties as one method of entering new foreign markets, hotel chains also assume the whole risk of properties that they manage. Leasing is much like having wholly-owned subsidiaries. Through leasing, hotel chains also have to assume the whole risk of managing overseas properties. By having wholly-owned subsidiaries, hotel chains can operate overseas properties and maintain consistency in their business policy. They can change the overall

strategy for their overseas properties, as well. Hotel chains can also communicate smoothly and quickly with members of overseas properties. On the other hand, due to unfamiliarity of the new foreign market, global hotel chains often need more money and time than if they affiliated with local companies (Angelo & Vladimir, 2001). In addition, using their own capital to expand business could hurt their financial condition as it increases their assets, but decreases the investment effectiveness, at least in the early stages of operation. Relying exclusively on the company capital to expand its brand also increases the risk of the entire organization.

Franchising. Certain hotel chains, such as Holiday Inn, prefer franchising as an effective tool of expanding their brand internationally. United States Business Brokers (2003) defined franchising as follows:

Franchising is a method of distributing products or services. At least two levels of people are involved in the franchise system: (a) the franchisor, who lends his trademark or trade name and a business system; and (b) the franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. Technically, the contract binding the two parties is the franchise, but that term is often used to mean the actual business that the franchisee operates (p. 1).

One of the greatest benefits of franchising to a country's economic development is that the franchises are rather easy to establish. As such, many businesses decide to use the franchising business model (Pasek, 2005). Hotel chains support their partners in a host country to start business in many aspects, such as employee manuals, marketing, purchasing and so on. In the meantime, hotel chains make their franchisees follow the same standard as they do in order to maintain the brand quality attitude. However, they do not assume the risk of business per se. Hotel chains practically do not finance the launching of new overseas properties (Angelo &

Vladimir, 2001). Walker (2001) found that “franchising in the hospitality industry is a concept that allows a company to expand more rapidly by using other people’s money than if it had to acquire its own financing” (p. 98). The franchise fees bring the hotel chains upfront profit and they include initial fees, royalties and other agreed-upon fees. The process of establishing a franchise, however, is not completed once the two interested parties reach an agreement to the terms of contract. Many franchises are subject to approval by the local governments. In China, strict government regulations imply that a franchisor will guarantee the quality of products and services sold by its local distributors (Wulff, 2005).

Because the hotel chains work with franchisees from host countries, they easily adjust their way of business to local customs. Nevertheless, it is impossible for hotel chains to control franchisee at all times and to convey all the knowledge they have. Thus, hotel chains are exposing their brand to the risk of getting impaired (Angelo & Vladimir, 2001). Holiday Inn Hotels brand (owned by InterContinental Hotels Group) is one of the largest global franchisors with more than 1,000 franchise properties around the world. While the business strategy works well for Holiday Inn, it is not as popular within the luxury segment. Brands competing in this market segment prefer having more control over delivering a consistency of service to its customers.

Management contracts. The concept of managing through contract is responsible for the expansion of hotel industry in the second half of the last century. Professor James Eyster of Cornell’s School of Hotel Administration defined a hotel management contract as “a written agreement between an owner and an operator of a hotel or motor inn by which owner employs the operator as an agent (employee) to assume full responsibility for operating and managing the property” (Angelo & Vladimir 2001, p. 473). According to Walker (2001), “the management

contract usually allows for the hotel company to manage the property for a period of five, ten or twenty years. In return, company receives a management fee that is usually between two and five percent of gross revenues” (p. 105). This allows hotel chains to use other people’s money for the initial investment for properties overseas. Mandarin Oriental Hotel Group has recently announced that it will manage a luxury 400-room hotel on Las Vegas Strip, the hotel attachment to the \$5 billion CityCenter project owned by MGM Mirage (Smith & Ridder, 2005). Having owners use their brand name as management contracts, the hotel chains are able to expand their brand recognition while securing relatively limited opening costs. In this case, all construction and opening costs will be assumed by MGM Mirage, whereas the owner will benefit from Mandarin Oriental’s client base. Mandarin Oriental will surely bring in new guests from Asia and Europe to Las Vegas, as it currently owns and operates 22 luxury hotels (with eight more currently under development) in 17 countries (Smith & Ridder, 2005). Mandarin Oriental Hotel Group will also add to its own revenue source, by charging management fees. In contrast, if hotel chains cannot gain a financial and continuous support from the owners, the hotels cannot maintain their standard quality of service and are sometimes even forced to go out of business. As a result, global hotel corporations could not only lose money, but also damage their reputation (Angelo & Vladimir, 2001).

Dunning and McQueen (1982) mentioned, “an explanation of the growth, distribution, and form of involvement of multinational enterprises (MEN’s) in the international hotel industry can best be conducted within the framework of the eclectic theory of international production” (p. 82). Then, they argued that according to the theory, firms would be involved in overseas business if they have exclusive merits and can use them together with the assets existing in the host countries. The firms tried to secure the quality of these merits by owning and controlling the

foreign properties. However, international hotel chains often chose not to own equity or even management-contract when they enter foreign markets. For example, according to its annual report 10-K form for the fiscal year ended January 2, 2004, 64.9% of 2,718 Marriott International Inc. operating or franchising lodging properties are franchised (TWST Annual Reports, 2005). In addition, its annual report 10-K form for the fiscal year ended December 31, 2003 indicated that Starwood Hotels & Resorts Worldwide Inc. franchises 41.3% of its 756 hotel and vacation ownership properties (Starwood Hotels, 2004).

Dunning and McQueen (1982) assumed that because the goals of international hotels and owners are usually harmonized, the international hotel chains do not need to use its capital to enter the foreign market. In addition, since the competitiveness and pressures from shareholders cause the market uncertainty, international hotel corporations often chose the way which is relatively lower in risk and easier to expand their business globally, such as franchising. As mentioned, this trend is atypical for the luxury market segment. Luxury hotel brands prefer to have full control over their properties in order to ensure consistency in delivering the highest levels of service to their customers. Therefore, luxury brands often decide to either own their subsidiaries or to sign management contracts.

Feasibility Studies

The first step in effectively analyzing a new market for a potential expansion of an international hotel chain is conducting a thorough feasibility study. This complex process should take into consideration all the key factors that may influence the future success of a new property in a foreign country. The goal of feasibility studies on a more global level is to: (1) generate information about the country or region and the new market, (2) compile essential data necessary to anticipate future industry trends, and (3) outline the correct business plan and effective pricing

strategies specific to the market (Cateora & Graham, 2002). For instance, when Four Seasons was considering the expansion of their chain and opening a new property in Istanbul, Turkey, the top corporate executives stayed in various high-end hotel properties in that market for approximately eight months before making their decision (C. Sanli & M. Nishikawa, personal communication, June 5, 2004). Their intention was to size up the competition and learn more about the market structure. There are an increasing number of companies (i.e. Unisys Corporation) who offer their services to help conduct valuable feasibility studies by providing planning steps to hospitality corporations. The main components of the feasibility studies discussed in this paper will be: (a) financial and political, (b) environmental, (c) currencies, (d) human management, (e) religion, and (f) hotel design.

Financial. The first two elements of a feasibility study in regards to regulations and customs of a specific market are financial and political factors. One of the key motivations for global expansion is geographic diversification. As in the financial industry where an investor is trying to protect his/her funds by allocating them across different industries, global hotel corporations also understand the importance of geographic diversification. The goal is to protect the company against sudden downturns in domestic or regional economies. For instance, if a hotel company has all of its properties in one country and that market suffers as a result of unexpected political decisions, the hotel company could potentially lose business for good. On the contrary, when an international hotel chain is represented by hotels in several different countries, those properties that are more profitable may be able to make up for the less profitable ones (Yu, 1999).

The main financial factors of any international market are growth potential, inflation rate, and the lending and taxation policies. During the late 1990's, Asian stock markets were

weakened as a result of heavy financial crisis. Foreign investors became increasingly attracted to the Asian market because of less strict lending policies. Asian banks were encouraged to increase foreign capital by providing lower interest rates in order to boost national economies. Doing business in Asia is arguably more complex than operating in the United States because of different government regulations, import and export controls, depreciation and security issues; yet markets like Japan, Singapore, Hong Kong, and Thailand have attracted many global hotel chains in the recent period (Selwitz, 1999). The booming Chinese economy is the newest area of interest for many international hotel corporations (Cregan, 2002). In addition, a major global event such as the Summer Olympics will be held in Beijing, China in 2008. Each one of the luxury hotel chains currently have multiple developments in China in order to position themselves in what many experts claim to be the world's market of the future.

Political. Political factors can be also very important in deciding whether to open a new hotel in a foreign country. The fall of the Berlin Wall in 1990, the breakup of the Soviet Union and the creation of the European Union have all contributed to the fall of international boundaries, thus making it much easier for foreign companies to penetrate those markets (Cateora & Graham, 2002). Likewise, certain political decisions can have negative effects on the global economy. For instance, national governments can try to protect domestic industries by imposing higher tax rates on international companies or by subsidizing the domestic industry. In 2002, the U.S. government decided to subsidize the domestic steel industry by creating a multi-billion dollar loan. This made it practically impossible for the E.U. steel industry to compete in the U.S. market, which has created a lot of controversy within the World Trade Organization.

In the hotel industry, multinational hotel corporations are assessing political risk and political stability before entering a new market. Political risk is best measured by the government

interference with business operations. Categories of political measures are laws and regulations, administrative and judicial issues, and lobbying. The majority of global hotel corporations view regional political events as the single most important factor in deciding whether to expand to a particular country (Hong et al., 1999).

Hotel corporations need firm assurance that they can protect their investment on the bottom line. For instance, a series of civil wars in the Balkan region during the 1990's have turned away many hotel corporations from investing in those markets and opening new hotels because it was not possible to attain such assurances at that time. Nevertheless, there is an abundance of international corporations who currently own and operate properties in the bordering country of Hungary. As the social-economic situation in the Balkans has started to improve and the local governments have begun the process of regional integration, a higher number of international hotel corporations are exploring the possibility of entering those markets. Hyatt Corporation currently owns and operates the Hyatt Regency in Belgrade, Serbia. Several other chains, such as Starwood and Hilton have officially expressed interests in introducing their brands in Belgrade.

Environmental. Environmental issues are the next part of feasibility studies. World institutions are becoming increasingly involved with environmental concerns, and have passed it off to local governments to create policies that will protect the environment. As a result, the total number hotel rooms in Bermuda must not exceed 10,000 (Angelo & Vladimir, 2001). Likewise, the number of hotels in Aruba, Dutch Caribbean has been limited by the local government. The only international chains that were thus far allowed to operate hotels in Aruba are: Marriott, Hyatt, Radisson and Wyndham (besides smaller independently owned properties). Therefore, the decision of opening new hotels in those countries does not solely depend on international hotel

corporations' business plans; rather, it has been directly influenced by the local government policies.

Monetary currency exchange rate is yet another factor that international companies need to regard when considering global expansion. For instance, the euro as European Union's national currency was first introduced as a concept in December 1991 in Maastricht, Netherlands. In January 2002, the majority of the 15 E.U. members have accepted the euro as the new currency (Hill, 2003). In 2004, the E.U. has accepted 10 additional members thus bringing the total to 25 member countries, which had a big financial impact on the world economy. Since then, the euro became much stronger than the U.S. dollar, which caused an overall decrease in the number of U.S. travelers visiting Europe, especially those tourists staying in luxury hotels. A logical explanation is that it is now more expensive for an average U.S. tourist to visit Europe. Additionally, it is harder for U.S. hotel corporations to invest in Europe. On the other hand, the recent devaluation of Argentinean peso in 2002 and certain Asian currencies in the late 1990's has made it more attractive for international hotel chains to invest and open new hotels in those markets.

Diverse work force. Managing a diverse international work force in a foreign country is a big challenge for all international hotel corporations. Expatriate managers need to select employees who identify their personal goals with global corporate goals. Managers recruit candidates with the right service attitudes, train them with relevant service skills and stress the importance of consistent productivity in order to achieve standardized levels of service across the brand's global chain. Expatriate managers often have to work with different cultural groups, with backgrounds and training skills different from theirs. In order to overcome this obstacle, managers need to become familiar with the country's employment laws and regulations and

employees' cultural beliefs (Yu, 1999). Many international hotel corporations who entirely own and manage their hotels usually send the top management to a foreign country when they open a new property. For instance, the General Manager of Four Seasons hotel in Istanbul, Turkey is a foreign citizen brought in by the corporation. The majority of other employees, in contrast, are recruited locally (C. Sanli & M. Nishikawa, personal communication, June 5, 2004). Likewise, the General Manager of Hyatt Regency in Belgrade, Serbia is a U.S. citizen, while the majority of mid-level management and line-staff employees are recruited directly from the host country of Serbia.

Religious differences. Understanding religious differences is another key factor for international hotel chains. Nowadays, there are approximately 3,000 religions worldwide, but the four dominant ones are Christianity, Islam (Muslim), Hinduism, and Buddhism (Hill, 2003). For instance, people in some religious Muslim countries must pray up to five times a day. All daily activities are interrupted during that time, which might make it hard for international companies with domestic workforce to maintain regular daily business activities. Four Seasons Hotel in Istanbul, Turkey has therefore imposed strict policies that forbid employees to pray during their work shifts (C. Sanli & M. Nishikawa, personal communication, June 5, 2004), while other multinational hotel corporations might find it challenging to impose similar policies in more religious Muslim countries. Furthermore, dietary habits may vary depending on a religion. Many Buddhists countries tend to be vegetarian. Muslims do not consume pork and alcohol, and Western cultures tend to consume larger amounts of fast foods (Yu, 1999). As a result, many international hotel corporations offer a wide variety of restaurants with different types of food in hotels around the world.

Hotel design. Hotel design is a final step of conducting an effective feasibility study. It is determined by three major factors: the targeted market, cultural factors, and environmental factors (Yu, 1999). Depending on the market that corporation is planning to serve, the hotel designs will vary. For example, to serve the upscale market segment, building design will be luxurious, where as for the economical segment the design will be simpler and more functional. Cultural environment can also affect the building design. In the pleasure travel segment, tourists like to experience different cultures. Hotels serving that market segment will be designed in a local architectural style in an attempt to establish itself as a tourist attraction and ultimately increase business. Luxury hotels competing against each other are trying to differentiate their brands by introducing cutting-edge technologies to the room products and by providing upscale amenities as a standard.

Corporate strategy in regards to building designs, however, changes from one luxury brand to another. Four Seasons hotel in Istanbul, Turkey is located in the middle of the city where the company has purchased an old building to construct a traditional Eastern-style hotel. Ritz Carlton and Four Seasons hotels in Tokyo, Japan are great examples of hotels that serve primarily the business clientele; those hotel buildings are more contemporary and modern in style (C. Sanli & M. Nishikawa, personal communication, June 5, 2004).

InterContinental Hotel brand typically customizes its properties when it comes to architectural style. InterContinental London is undergoing a major refurbishment and is scheduled to re-open in July 2006. While the enhancements include a new destination restaurant, luxurious spa and completely remodeled guest rooms, the building perfectly fits into London's panoramic view, with white façade and a spacious garden. Another InterContinental property is scheduled to open its doors in 2006 in Boston, MA. The new hotel's contemporary design with

glass façade will be the symbol of 21st century Boston (N. Woodward, personal communication, October 13, 2005).

Organizational Structure

Most hotel groups are a combination of corporate ownership and franchises. One can rarely see an example of pure corporate ownership, without a fragment of franchising, such as The Hyatt International Corporation, which owns and manages their own hotels. Most companies try to use a broad portfolio and franchising as their main way of securing income. A perfect example of the company that collects its revenue and earnings from managing its own hotels, managing other properties through management contract, and receiving franchise fees is Starwood, which successfully implements all three methods (Starwood Hotels, 2004).

There are many differences between corporate ownership, management through contract and franchising. Corporate structure is a vital aspect of any company. The main issue when it comes to property management is centralization versus decentralization. Centralization is enforcement of strict rules, previously established by the corporate standards. On the other hand decentralizing would allow employees a partial freedom in the decision making process in daily operations of a hotel. In order to describe differences between centralization and decentralization, the researcher compared how those two concepts influence management structure and technology, in terms of central reservation systems. The findings imply that when it comes to centralization and decentralization, there is no strict rule to be followed. It would be incorrect to generalize and say that for example, only upscale hotels or only international chains have central reservation systems. Many different domestic, middle level hotels use central reservation systems today. Companies are now implementing new principles and creating their

own culture. They are selecting the best ideas out of both concepts and use them as their strength.

Interviews with two former employees of Four Seasons Hotels located in Istanbul, Turkey and Tokyo, Japan provided knowledge about the strategies of Four Seasons Hotels and Resorts. Four Seasons Hotels and Resorts is the world's leading operator of luxury hotels, currently managing 67 properties in 30 countries (Four Seasons Hotels and Resorts, 2005). Information gathered from the interviews imply that corporate owned hotels are more likely to be focused on following corporate standards. For example, in Four Seasons, the General Manager and Assistant General Manager are selected by the corporation and brought from another country. On the other hand, middle management and front line employees are hired from the local labor pool (C. Sanli & M. Nishikawa, personal communication, June 5, 2004). One of the advantages of hiring employees on a local level is familiarity with the customs. While upper management has the ability to maintain corporate standards, lower management has the advantage of understanding the local culture. Together, they synergistically create a better product.

Internal Structure

Hotel internal management strategies also vary considerably. Some hotel companies focus on maintaining a vigorous set of procedures that employees must follow, while others utilize empowerment. A perfect example for decentralized management is Hyatt Hotels Corporation. Walker (2001) found that "Hyatt Hotels Corporation is characterized by a decentralized management approach, which gives the individual manager a great deal of decision making power, as well as the opportunity to stimulate personal creativity and, therefore, differentiation and innovation" (p. 166). In order to understand their employee's problems and challenges they face on a daily basis, Hyatt executives came up with an idea of "In touch Day".

Once a year, Hyatt's top executives leave their corporate offices and spread around the country and world in order to assist their employees and express their appreciation and respect to them (Walker, 2001). This is a great example of industry leadership that shows how much the Hyatt Corporation's top management cares about the well-being of all their employees.

When it comes to franchise hotels, the franchisee has to follow a set of standards established by the franchisor in order to keep the operating license and enjoy the benefits that come with a contract between two parties. Improvising is limited because the costs of regaining the license are very high. An example of a hotel that lost all the privileges from the franchisor is the Beograd InterContinental Hotel, located in Belgrade, Serbia. Management tried to implement some new ideas that were inconsistent with InterContinental Hotels Group's standards and as a result lost its license. In the recent past, the property has gone through major remodeling and has established itself as one of the most luxurious properties in the region. Many adjustments have been made and the executive management team is hoping to soon re-join the ICH chain (M. Susnjar, personal communication, September 16, 2005).

When it comes to entry-level positions, differences in empowerment levels are obvious. Rules and regulations in a company such as Four Seasons are much stricter than in some other companies, but that does not mean that all luxurious hotels do not give a lot of freedom to service a guest. Ritz-Carlton is among the most luxurious hotel chains in the world. According to Walker (2001), "much of the responsibility for insuring high-quality guest services and accommodations rests with staff. Each Ritz-Carlton staff member is empowered to make a decision that could cost the hotel up to \$2,000 to help guests with their problems" (p. 22). Mr. Horst Schulze, founding president and CEO of Ritz-Carlton Hotels, says "it is not the amount of money that is important, but rather the emphasis on the corporate environment that encourages

employees to make decisions and speak up because they need to feel like a part of the organization and work for the organization” (Walker, 2001, p. 30).

Another aspect that one cannot overlook when it comes to issues of centralization and decentralization are reservations systems. Companies use different systems in order to obtain all the information about their guests, as well as to make a strategy that will help increase the profits. Corporate owned hotels share their systems and all the information is being transferred to corporate headquarters. Franchising is different because franchisee sometimes has an option of using a franchisor’s reservation system for an additional fee. In 1999, Hilton launched a new Central Reservation System, called HILSTAR, creating a network of 440 hotels worldwide.

HILSTAR supports Hilton's overall strategy, feeding real-time information directly into HRW (Hilton Reservations Worldwide), industry global distribution systems (GDS), and individual Hilton hotels and the website www.hilton.com. In addition, the new system will facilitate global sales and marketing initiatives for Hilton's worldwide network of hotels in more than 50 countries. HILSTAR will increase hotel revenues through better selling capabilities, positioning hotels to take advantage of ongoing technological advances and enhance call conversion rates through improved cross-selling features and more extensive search capabilities, while delivering consistent data across all global distribution channels (Hilton Hotels, 1999).

Hotel companies are creating their own mix of centralization and decentralization in both human and technological aspects of a property. Global hotel corporations try to implement what fits best into their short and long term plans without strictly taking one specific approach. In some cases centralization works very well, whereas decentralization could be very helpful and strongly recommended in some other cases. The conclusion is that there is no “rule of thumb”

when it comes to finding the appropriate mix of centralization and decentralization. Rather, hotel companies should conduct their own research to determine which strategy works best for them.

Standardization vs. Customization

One of the greatest decisions that a hotel company faces when expanding internationally is determining which elements within a hotel should be customized and which should remain standardized. Many of the topics already addressed focus on this issue. For instance, ownership, employee management, etc...are each determined by the degree of standardization and/or customization allowed by the company in the identified market. Although all hotel companies have different strategies, there are some strategic elements that most hotel companies share. For example, companies realize that safety and cleanliness are the two factors that guests value most. Likewise, homogenized services are not always appropriate and some customization is often preferred. Several factors complicate corporate hotel strategies even further. First, companies must consider the marketing mix. Second, companies should determine whether or not market segmentation is appropriate. Lastly, marketers must carefully evaluate the marketing process to ensure the proper response by the client base.

A hotel's market mix not only examines who the client base is, but it also deciphers other important factors like what percentage of revenue is derived from each department. Evaluation of a client base is essential because it largely determines what elements within a hotel should be customized. For example, an expensive destination resort in the South Pacific is not likely to attract people from that region because prices would seem unaffordable to the local population. The resort would therefore focus on tending to the needs of high-income international guests. In this case, a high degree of standardization would be best with many of the same services and amenities that they would find in an American resort. On the other hand, a limited service

property in Argentina might cater primarily to domestic travelers (Hong et al., 1999). Services in this scenario should be highly adapted to the people from this region. In addition, while most luxury hotel properties, by design, customize their offering to guests (while lower segment properties typically do not customize) it is done so only after careful analysis of the local situational needs.

One method that hotel companies can use to capture a broader customer base of both domestic and international travelers is market segmentation. InterContinental Hotels and Resorts is the world's largest hotel group. InterContinental Hotels and Resorts Inc. has managed to capture such a large share of the international market by successfully segmenting its brands. Their comprehensive portfolio consists of properties at all levels from luxurious InterContinental Hotels to the limited service Holiday Inn Express (InterContinental Hotels Group, n.d.). Marriott Corporation currently owns and operates, as well as franchises hotels that fall into one of 15 hotel brands, covering all five market segments. All major hotel corporations have followed the trend and have developed multiple brands in order to more efficiently penetrate the distinctive market segments.

When promoting a hotel internationally, companies must realize heterogeneous customers respond differently to different kinds of marketing. For example, the same television commercials should not be aired in all countries. Hotel companies can also target a specific target market by utilizing effective advertising. Nevertheless, hotel companies must be careful to not alienate a potential guest based on that advertising. Likewise, some customization should always be implemented to satisfy the needs of a non-traditional guest.

Hotel companies must understand their customers in order to understand what products and services need to be standardized or customized. Every company has a different strategy

regarding customization. In addition, the degree of customization within each company varies from hotel to hotel. Hotels that manage to meet their customer's expectations by providing the appropriate mix of customization generally create the greatest value to the guest and are therefore the most profitable.

Summary

The literature review section provided a reader with the knowledge of different modes of entry into foreign markets. It also presented the results of feasibility studies based on extensive research material that was collected during a two-year period. Part two of the paper talked about the advantages and disadvantages of different organizational structures. The evidence suggests that a hotel corporation will most likely choose a combination of elements of standardization and customization in the new property, depending on the world region and the demands of a potential local clientele. Important steps include the consideration of marketing mix and market segmentation, as well as selecting the appropriate promotional strategies.

PART THREE

Introduction

The researcher has identified the main challenges that hotel corporations face each time they enter a new foreign market. Global hotel chains must be prepared to make necessary adjustments to overcome the obstacles. No two hotels are the same; each property needs to create its own culture by meeting the demands of its guests in a particular market while maintaining brand reputation. The hotel chains must also carefully evaluate markets in order to minimize uncertainty. Site selection and real estate negotiation comes up only after a thorough feasibility study has been performed, so that global hotel corporations can assess how successful a planned property might be. While there is no simple formula that eliminates risk, proper feasibility studies can reduce uncertainty.

Solution

Estimating transaction costs enables the hotel chains to compare costs of various modes of entry. In addition, it forces hotel chains to realize their strengths and weaknesses. Jarillo and Stevenson (as cited in Zhao, 1994) said that “any business transaction bears the costs of negotiating, monitoring, and enforcing contracts with external parties and the cost of coordination” (p. 43). In addition, Zhao (1994) also included “the capital costs of establishing a facility overseas, the costs of familiarizing the firm with the local market and culture, the costs of transferring know-how abroad, and the costs of controlling the expanded organization” (p. 62). Besides initial outlay costs, these additional costs vary depending on the companies’ abilities, such as human resources, the bargaining power based on brand recognition and other attributes that are specific to each hotel property. Therefore, the costs could change between hotel chains

despite the fact that they enter the same market with the same entry mode. This analysis also allows the chains to recognize what would happen and how to address the issues if they arise.

Hotel chains predict certain scenarios before implementing business in the new markets. Many issues are noticeable only employees who happen to be there. Without those issues, hotels are unlikely to correct their strategies. According to Go and Pine (1995a), “value creation is derived from ability to cooperate and learn collectively in a transnational network” (p. 78). Global hotel corporations also need to collect information not only to customize and adapt to market demands, but also to find ways to increase brand recognition (Go & Pine, 1995b). For instance, hotel chains could find local products that they can adopt and utilize in other countries. Hotel chains should take advantage of their broad network in order to improve their global business operations. The better the hotel chains communicate with the related hotels throughout the world, the more valuable information they could have and the more profitable they become.

Inflexible organizations that refuse to customize to the needs of the foreign markets often are unsuccessful. The global hotel business is complex because each hotel chain must accommodate varying differences in each particular circumstance. In addition, perceived value is different all over the world and cultural norms often change with time. Hotel chains must have the ability to discern what is valuable in a market and what has to be changed in order to be successful in that market.

Conclusion

In order to expand into foreign markets, hotel chains must consider many complex factors, such as the fundamental market characteristics, customer behaviors, entering strategies, and organizational structures. Likewise, the appropriate mix of centralization and decentralization, as well as standardization and customization needs to be evaluated. Different

companies have different strategies when it comes to international expansion. Furthermore, every individual property is its own entity and what works for one hotel may not necessarily work for another. Therefore, there is no distinctive set of rules when it comes to the appropriate mix of standardization and customization. Each property should fully understand what the guests' expectations are in order to meet their demands. In addition, hotels should be able to adapt to preferences and customs that were not initially considered. International hotel brands are expected to provide certain consistent standards and services. An appropriate level of customization, however, is vital to the success of a hotel abroad.

Recommendations

Future research on the topic of international hotel expansion should consist of two key elements. Besides providing an extensive literature review, a researcher must take into consideration the ever-changing trends in the global hospitality industry. International hotel chains constantly seek the new ways of improving their overseas operations. They also tend to imitate those innovative operational and marketing strategies that have proven to be successful for their direct competitors. At the same time, hotel companies invest billions of dollars worldwide to expand their chains globally and thus increase customer loyalty. A future researcher must identify all the important factors that hotel executives observe when considering to open a new hotel in a foreign country.

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Footnotes

¹ The issue of brand loyalty has been examined at great length. Depending on whether a customer will familiarize with a known brand in a foreign country is the single most important factor influencing the product's success or failure in the new marketplace. As outlined by Hong, Jones, & Song (1999), international hotel companies rely heavily on repeat guests and global brand loyalty.