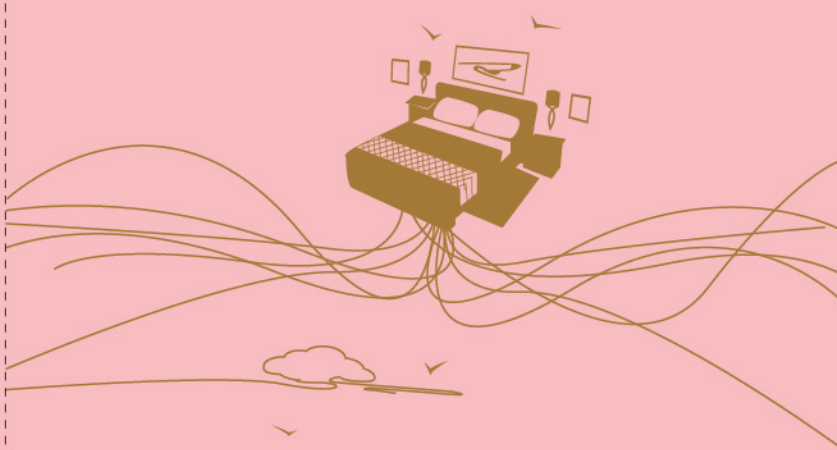
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Marketing, Rebranding and Repositioning of
a Hong Kong Hospitality Group:
Langham Hospitality Group

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Marketing, Rebranding and Repositioning of a Hong Kong Hospitality Group: Langham Hospitality Group

Robert Warman, a veteran in the hotel industry, was hired by Great Eagle Group, to manage its Langham Hospitality Group (LHG) subsidiary starting in March 2014. As the new CEO, Warman set a target to boost LHG's portfolio from 22 hotels to 100 with multi-brands around the world in five years' time. The thrust of the ambitious expansion would involve the introduction of a new brand targeted at business travelers with China as the first entry market; the repositioning of an existing brand, Eaton, to capture the growing millennial market; and an increase in brand recognition and awareness of the Langham name. The American expatriate knew that the task ahead would require him to draw on his vast, international hospitality experience and test his skills as a leader and agent for change.

The Hospitality Industry

According to the United Nations World Tourism Organization (UNWTO), international tourist annual arrivals grew from 25 million in 1950 to more than one billion by 2013. This trend was forecasted to continue and to reach 1.8 billion in 2030.[1] Over one billion of these tourist arrivals or 57% were expected to visit emerging economies as opposed to advanced economies. In 2013, the Asia Pacific region recorded the strongest tourism growth with a 6% increase in arrivals, followed by Europe and Africa with both increasing by 5%.

Boosted by rising disposable income, fewer restrictions on foreign travel and an appreciating currency, Chinese tourism spending abroad had increased almost tenfold since the year 2000.[2] Hong Kong had benefited greatly from the above trend. In 2013, mainland China was its largest source market with almost 41 million arrivals, which accounted for 75% of total arrivals.[3] The Hong Kong government forecasted that total visitor arrivals could exceed 70 million by 2017 and 100 million by 2023.[4]

Smith Travel Research noted that the global hotel industry was broadly segmented into branded (multiple hotels under the same brand name) and independent (non-branded) hotels.[5] In America and Western European countries, 70% of the hotels were global brands [see **Exhibit 1** for top 10 worldwide hotel groups], whereas in the developing markets, like China and India, global brands' penetration was as low as 20% to 30%. This trend, however, was expected to change as global branded

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1 *UNWTO, UNWTO Tourism Highlights, 2014 Edition, http://mkt.unwto.org/publication/unwto-tourism-highlights-2014-edition, accessed 13 June 2014*
2 *Ibid.*
3 *Tourism Performance, Tourism Commission, http://www.tourism.gov.hk/english/statistics/statistics_perform.html, accessed 22 May 2014.*
4 *Yvonne Liu, Mainland Chinese tourist boom sparking hotel conversions in Hong Kong's residential areas, http://www.scmp.com/property/hong-kong-china/article/1450166/mainland-chinese-tourist-boom-fuels-hotel-rush-hong-kong, accessed 14 May 2014.*
5 *IHG, "Industry and Market Trends," 3 April 2014, http://www.ihgplc.com/index.asp?pageid=51, accessed 12 June 2014.*

Armand Ghieuw prepared this case under the supervision of Professors Roger King and Winnie Peng solely as a basis for class discussion. Cases are written in the past tense; this is not meant to imply that all practices, organizations, people, places or facts mentioned in the case no longer occur, exist, or apply. Cases are not intended to serve as endorsements, sources of primary data, or illustration of effective or ineffective handling of a business situation.

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hotels increased their market share due to demand for higher standards of services, reliability and safety. As of 2013, the fastest growing market was China with 21% growth.[6]

Even though Chinese low-end brands dominated the budget and economy sectors within China, global brands became relatively successful in the mid- to upper-level markets, where their management expertise and appeal to international travelers was leveraged to garner management contracts.[7] The "Global Hospitality Insights Tops Thoughts for 2014" projected that the two groups of travelers that would have a significant impact on the hospitality sector in the coming years were millennials and Chinese visitors.[8] The term "millennials" (also known as Generation Y) referred to those born during the period of 1980 to 2000. It was predicted that millennials would occupy half of the market by 2015 and would affect services and amenities offered by hoteliers. To capture the millennial market, hoteliers would offer everything from booking applications via smart phones to room service ordered from in-room tablets and expanded loyalty programs designed to maximize the stay experience.

In global hospitality industry, family business plays a very important role as many well-known hotel groups were initially founded by family, and some of them were still family-controlled nowadays. It is more so in Asia where family business dominates the economy in many regions. In Hong Kong, for instance, approximately 70% of listed companies were family-controlled. In a typical ethnic Chinese family business, the patriarch of the family was usually the chairman of the board or the president of the company, and the strategic decisions were often made by the family.

The Great Eagle Group

The Great Eagle Group was a Chinese family-controlled conglomerate, headed by Dr. Lo Ka Shui, a cardiologist by training. The Group was founded in 1963 by Dr. K. S. Lo's father and grew into one of Hong Kong's leading property investment companies. The company was listed in Hong Kong in 1972 (HKSE: 41). In 2013, the group had a net profit of USD215 million with a net asset value of USD7.3 billion.

Great Eagle's massive property portfolio was divided into commercial and hotel properties located in major cities around the world. In 2006, to raise additional capital, a number of its commercial properties in Hong Kong were injected into a real estate investment trust (REIT) called Champion REIT (HKSE: 2778) which was listed on the Hong Kong Stock Exchange.[9] In 2013, three of Great Eagle's major hotels in Hong Kong were also listed on the Hong Kong Stock Exchange to raise capital under another REIT vehicle called Langham Hospitality Investments (LHI) (HKSE: 1270). Properties not owned by the two REITS remained under the direct ownership of Great Eagle.

To provide professional management of its commercial and hotel properties, Great Eagle established two wholly-owned subsidiaries: Eagle Asset Management and Langham Hospitality Group (LHG).

LHG's hotel portfolio was operated under its "The Langham," "Langham Place," and "Eaton" brands. Approximately half of its hotel portfolio was owned by the Great Eagle Group and the remainder was third-party hotels operated under hotel management contracts with other owners. In mid-2014, there was only one joint venture hotel in Shanghai. LHG's three major hotels in Hong Kong (The Langham, Langham Place, and Eaton) were in prime locations on the Kowloon peninsula. These three hotels alone contributed 45% of Great Eagle's hotel profits in 2013.

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[6] *Hospitality Net, "World Ranking 2013 of Hotel Groups and Brands," 3 April 2013, www.hospitality net.org/news/4060119 html, accessed 13 June 2014.*

[7] *Hospitality Net, "The Global Hotel Industry: Big, Beautiful and Branded? Part One," 7 March 2013, http://www.hospitalitynet.org/news/4059749.html, accessed12 June 2014.*

[8] *REMI Network, "Global hotel industry to grow in 2014: Report," 27 January 2014, http://www.reminetwork.com/articles/global-hotel-industry-to-grow-in-2014-report/, accessed 12 June 2014.*

[9] *A Real Estate Investment Trust (REIT) is a company that owns and manages income-producing real estate. REITS are governed by many regulations, the most important being that they must distribute at least 90% of their taxable income to shareholders each year as dividends.*

Globally, Great Eagle's extensive hotel portfolio was comprised of 22 luxury properties, 17 hotels under The Langham and Langham Place banners. Another eight hotel projects were in the pipeline for completion between 2015 and 2017 [see **Exhibit 2**].

Langham Hospitality Group

The purpose of the Langham Hospitality Group was to provide management and marketing services to hotel owners around the world.

LHG's name was inspired by the 150-year-old London Langham Hotel which was acquired by Great Eagle in 1996. As a real estate company, Great Eagle initially purchased the London hotel due to its asset appreciation potential and as a hedge against inflation. Inaugurated in 1865 by the Prince of Wales, The Langham Hotel was not only London's largest building but was also Europe's first "Grand Hotel." Among other things, the Langham Hotel featured the world's first hydraulic lifts as well as an early form of air-conditioning. Celebrities from all fields, including the French Emperor Napoleon III and noted wits and writers Oscar Wilde and Mark Twain were at one time patrons of that noble establishment.[10]

In 2003, Great Eagle had under its control various hotels under different brands and it decided to regroup them as either The Langham, Langham Place or Eaton to be managed by LHG. By the end of 2013, the hotel division of Great Eagle had become the second-largest income stream for the group [see **Exhibit 3A**, **3B** and **3C** for past performance and customer base of the three brands, and **Exhibit 4** for number of hotels by brand and by country].

During the initial stage, LHG's business strategies were largely driven by the priorities of its parent company Great Eagle which provided the funds for new projects, renovations, purchases, personnel recruitments, and acquisitions. New hotel additions could be self-financed acquisitions, joint ventures with partners, or management contracts with third-party property owners.[11] Great Eagle had some direct investments in China, but the majority of LHG's hotels in China were under management contracts. Due to business demand, China became one of the top markets for LHG's growth although it was not reflected in Great Eagle's business strategy. In the long run, the success of LHG would be largely through management contracts.

The LHG organization was structured with various operational units (e.g. technical, human resources, finance, rooms & food & beverage operations, sales and marketing) designed to support Great Eagle's ever increasing hotel portfolio [see **Exhibit 5**].

New Hospitality Strategy

In 2014, K.S.Lo and the company's board laid out a new strategy to boost the growth of its hotel business via multi-branding and brand differentiation. Great Eagle's new hospitality strategy consisted of four key components. The first component was to create a new branding strategy for the luxury segment to differentiate The Langham and The Langham Place hotels (Langham Hotels & Resorts) into "classic" and "modern," respectively. The second component was to shrug off the mass market image of The Eaton hotels by repositioning The Eaton as a lifestyle brand targeted at the growing global millennial market, which was to be officially launched in late 2014. The third component was to increase LHG's portfolio from the current two brands to three brands with the addition of a new brand X (the name was to be officially released in Q1 of 2015). Brand X would be positioned alongside Hilton and Marriott, offering premium hotels dedicated to business travelers.

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[10] *Wikipedia, "Langham Hotels International," http://en.wikipedia.org/wiki/Langham_Hotels_International, accessed 13 June 2014*

[11] *A hotel management contract is a formal agreement under which the owner of a hotel employs the services of an operator (usually a hotel chain providing marketing strategy, brand name, systems and procedures, technical services, management training and development) to provide professional management for a fee. The operator assumes full responsibility for the management of the business while the legal and financial responsibilities remain that of the owner.*

The company planned to launch Brand X initially in China followed by a global roll-out at a later stage.

> *The next wave in business travelling will come from China when big Chinese firms expand their footprints internationally.*
>
> Robert Warman, CEO,
> Langham Hospitality Group[12]

The decision by Great Eagle to use branding and repositioning as the drivers to achieve growth was based on the premise that there was only a finite customer base within each consumer segment whether they be business travelers or leisure travelers. The introduction of new brands would allow LHG to tap new markets and customers that were otherwise unavailable to it. This strategy would leverage Langham's heritage of excellence and operation experience to ensure a quality product that met global standards.

The final component of Great Eagle's hospitality strategy was to bring in a new dynamic leader with global hospitality industry experience to implement its goals. In March 2014, Warman was specifically hired to take over the helm of Langham Hospitality Group as its CEO. He had more than 30 years of hospitality experience. As President and Chief Operating Officer of Capella Hotel Group in the United States, as well as co-chairman of the Capella Asia board, he was heavily involved in spearheading its growth and in the solicitation of new management contracts. The Capella Group was a provider of hotel management services covering hotels, resorts and spas. Warman served 12 years at the Capella Group. Prior to that, he had served for 18 years in various operational and executive capacities at the Ritz Carlton Hotel Group. He also accumulated Asian experience when he was involved in the hospitality management of the Shanghai Portman Hotel by Ritz Carlton in the 90s. Warman's personal objectives for his new position at LHG were to build on the board's mandate to expand the group's hotel portfolio to 100 hotels in the next five years as a rallying cry for his troops. At the back of his mind, he was thinking about growth not only in Asia but also other markets including United States, the Middle East and Europe.

Challenges Ahead

The Langham Group brands (Langham Hotels & Resort, Brand X, and Eaton) were not as popular and well-known as the brands of its peers such as the Ritz Carlton, Shangri-La, Four Seasons, Mandarin Oriental and Rosewood. The distinction between The Langham and Langham Place was not all that clear. The creation of a new Brand X to tap the business traveler market in China and the repositioning of Eaton to capture the millennial market raised the issue of whether LHG might be taking on too much in the space of less than six months and running the risk of diluting its focus and resources. Moreover, with the future plan for three distinct brands (Langham Hotels & Resorts, repositioned Eaton, and Brand X), would the value proposition of each brand be clear to all stakeholders? What should be done to ensure the travelling public, travel industry, third party hotel owners and internal LHG staff to understand this new strategy?

Warman was confident that staff recruitment and training had not been an issue for the hotel industry. He noted however that the ability to retain staff and to reduce staff turnover was a looming challenge that needed to be addressed in view of a tight labor market in the hospitality industry. Retaining competent staff was vital to the successful launch of any new venture. What steps could the new CEO take to pre-empt personnel erosion and to encourage staff loyalty?

The new CEO faced some challenges such as low brand awareness of Langham brands; the repositioning of Eaton and the introduction of

[12] *Robert Warren, interview by author, Hong Kong, 4 August 2014.*

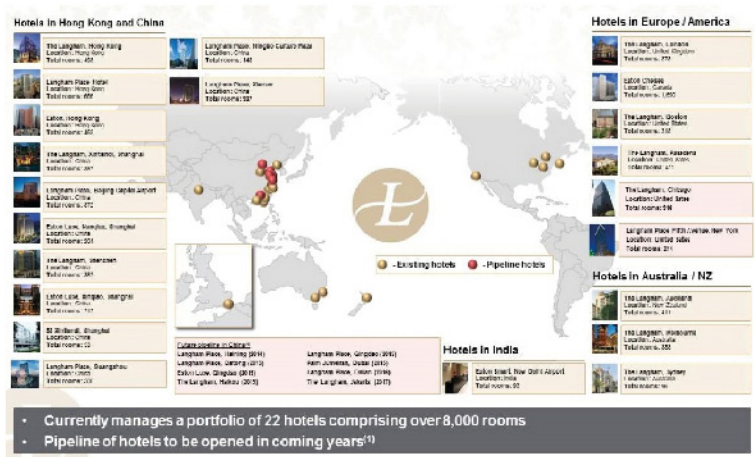
Brand X; and the achievement of the target of 100 hotels in the next five years. On the other hand, working for a Chinese family-controlled company did have its advantages. As Great Eagle was a family-controlled business, the board of directors tended to take a long-term sustainable perspective on business decisions which worked out well for nurturing new brands and ventures. Furthermore, the decision making process tended to be faster for family-controlled businesses.

EXHIBIT 1: TOP 10 WORLDWIDE HOTEL GROUPS AS OF JANUARY 2013

Rank 2013	Rank 2012	Group	Country of origin	No. of hotels 2013	No. of hotels 2012	No. of rooms 2013	No. of rooms 2012
1	1	IHG	GB	4,602	4,480	675,982	658,348
2	2	Hilton Hotels	USA	3,992	3,861	652,378	631,131
3	3	Marriott International	USA	3,672	3,595	638,793	622,279
4	4	Wyndham Group	USA	7,342	7,205	627,437	613,126
5	5	Choice	USA	6,198	6,203	497,023	502,460
6	6	Accor	FRA	3,515	4,426	450,199	531,714
7	7	Starwood Hotels and Resorts	USA	1,121	1,076	328,055	315,346
8	8	Best Western	USA	4,024	4,018	311,611	295,254
9	9	Home Inns	CHI	1,772	1,426	214,070	176,562
10	10	Carlson Rezidor Hotel Group	USA	1,077	1,077	166,245	165,802

Source: www.hospitalitynet.org/news/4060119.html, accessed 13 June 2014

EXHIBIT 2: LANGHAM BRAND PRESENCE



Source: Supplied by Langham Hospitality Group

EXHIBIT 3A: THE LANGHAM – HISTORICAL PERFORMANCE AND CUSTOMER BASE

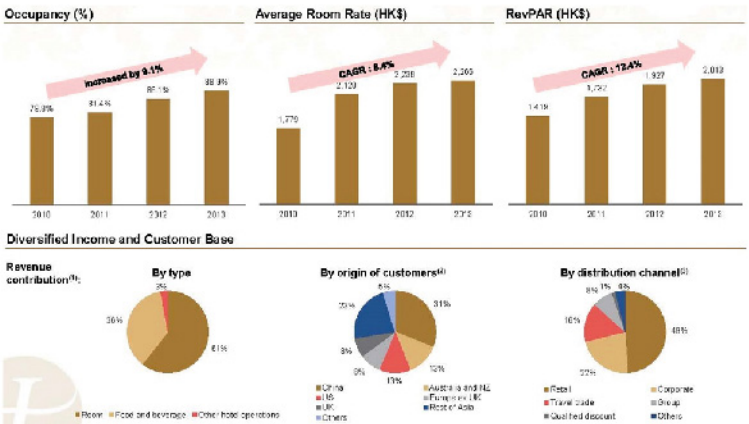


EXHIBIT 3B: LANGHAM PLACE HOTEL – HISTORICAL PERFORMANCE AND CUSTOMER BASE

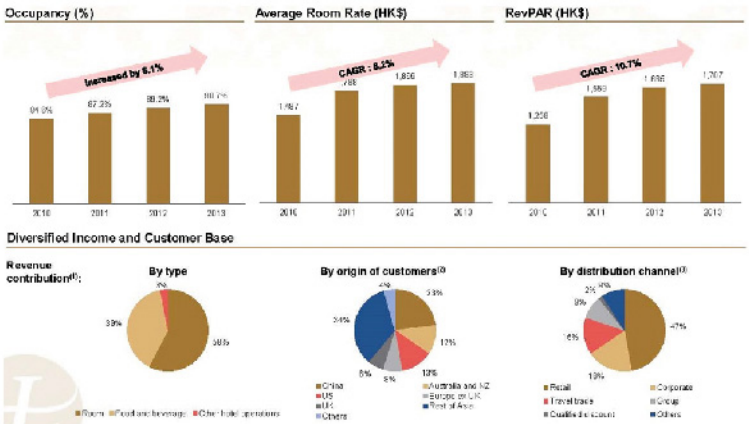
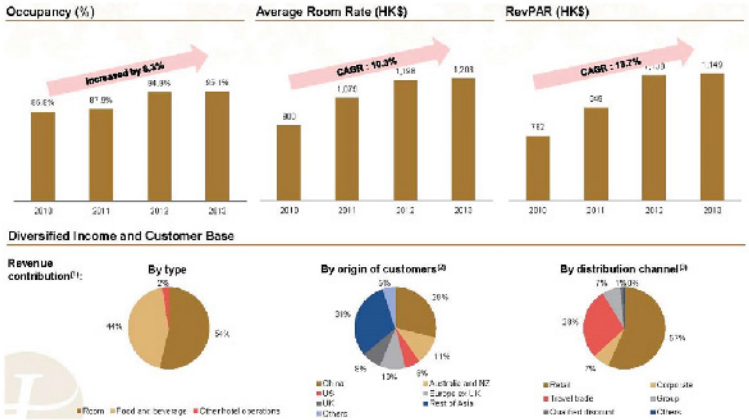


EXHIBIT 3C: EATON – HISTORICAL PERFORMANCE AND CUSTOMER BASE



Note:

1) *For the year ended 31 December 2013.*
2) *Based on self-reported data collected at the time of guest registration and have not been subject to audit or review by an independent third party. Such data excludes room revenue derived from airline crew and others from unidentified countries and other miscellaneous revenue and service charges.*
3) *Excludes other miscellaneous revenue and service charges.*

Source: Supplied by Langham Hospitality Group

EXHIBIT 4: NUMBER OF HOTELS BY BRAND BY COUNTRY IN YEAR 2010-2013

The Langham

	2010	2011	2012	2013
Hong Kong	1	1	1	1
PRC	0	1	1	2
Pacific	2	2	3	3
North America	2	2	2	3
Europe	1	1	1	1
Total	6	7	8	10

Langham Place

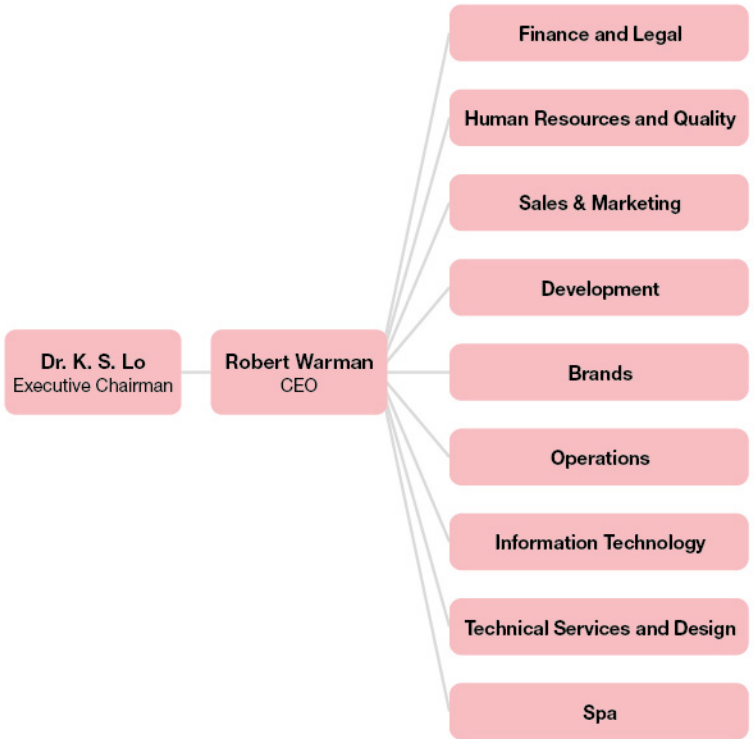
	2010	2011	2012	2013
Hong Kong	1	1	1	1
PRC	1	1	1	4
North America	0	0	0	1
Total	2	2	2	6

Eaton

	2010	2011	2012	2013
Hong Kong	1	1	1	1
PRC	1	1	2	2
North America	0	0	0	1
India	0	1	1	1
Total	2	3	4	5

Source: Supplied by Langham Hospitality Group

EXHIBIT 5: LHG ORGANIZATION CHART



Source: Supplied by Langham Hospitality Group