

## case study

# Carlson: A case study in strategy and hospitality marketing position

By Justin Richards and Fred DeMicco

## Introduction

There are many challenges and obstacles in today's hospitality landscape. From the continued effects of global recession and hyper competition to political instability and natural disaster, there seems to be no shortage of possible pitfalls just over the horizon. On the opposite pole, there are vast opportunities for growth and profit generation. Global emerging markets, tentatively renewed consumer confidence, and new technologies all give hospitality firms reason to remain optimistic. For executives in the large hospitality institutions and their management teams, properly analyzing the current environment, identifying threats and hurdles, and properly implementing strategies to maximize revenue and potential become essential tools to ensure continued success.

Within this framework, Carlson is seeking to blaze new trails for the New Year and those thereafter with its Ambition 2015 initiative. Carlson has laid out an ambitious plan that will position it as not only a global leader in hotel rooms reserved but also a leader in in-house travel management through their Carlson-Wagonlit travel agency. Its goals include having at least 1,500 hotels in operation with expansions of their popular Radisson Blu and Radisson brands in the upscale market, positioning their Park Inn franchise as a global leader in the midscale market, and continued expansion of the Country Inn and Suites brand in key markets. They also seek to remain the global leader in travel management.

To accomplish such grandiose ambitions Carlson has a number of tools available, along with several possible stumbling blocks and hindrances. This brief market analysis highlights both the opportunities and potential threats facing Carlson as they seek to aggressively charge into the coming years.

## Company Specifics

Carlson is an industry leading global hospitality company consisting of hotels, resorts, restaurants, and also a travel agency. Unlike most other hospitality companies, Carlson is a privately held entity, one of the largest family owned companies in the US. Its hotel division, (Carlson Rezidor Hotel Group), has approximately 1,300 prop-

erties in operation or under development in over 100 countries. Other relevant facts pertaining to Carlson include:

- Its annual sales for 2013 totaled approximately \$37 billion (includes all Carlson owned, managed, or franchised brands as well as its travel subsidiary's customers in 2013), and \$4.4 billion in managed revenue. The break down in revenue earned is as follows (see appendix):
  - Carlson Rezidor Hotel Group - \$7.5 billion system wide sales, \$1.6 billion managed revenue
  - TGI Fridays - \$2.7 billion system wide sales, \$1.1 billion managed revenue (as of quarter 4 of 2013. The Friday's portion of Carlson's core business was sold in early 2014)
  - Carlson Wagonlit Travel - \$26.9 billion system wide sales, \$1.7 billion managed revenue
- Carlson employs approximately 178,000 individuals in total:
  - 71,000 restaurant employees through its TGI Friday's brand (as of quarter 4 of 2013)
  - 88,000 from its hotel brands which include resort, luxury, upper mid-scale and mid-scale properties
  - 19,500 from travel
- Carlson Wagonlit Travel is the global leader in travel management, with 60 million on and off-line transactions, ([http://www.carlsonwagonlit.com/en/global/our\\_company/cwt\\_at\\_a\\_glance/](http://www.carlsonwagonlit.com/en/global/our_company/cwt_at_a_glance/)) and represents about a third of the Fortune Global 100 companies. (In early 2014 Carlson acquired the full Carlson Wagonlit portfolio and now owns 100% of the business)

Within the framework of the industry landscape, Carlson seeks to define its core brands by focusing on several "target markets," each of which are brand specific. [Radisson Blu](http://www.carlsonwagonlit.com/en/global/our_company/cwt_at_a_glance/), ([http://www.carlsonwagonlit.com/en/global/our\\_company/cwt\\_at\\_a\\_glance/](http://www.carlsonwagonlit.com/en/global/our_company/cwt_at_a_glance/)) the company's flagship brand name, seeks to appeal to the urban traveler who enjoys fine dining, sleek and sophisticated décor and ambiance, and a strong focus on guest service. By contrast, [Carlson's Country Inn and Suites](http://carlsonrezidor.com/pdf/CIS_factsheet_18.02.2014.pdf) ([http://carlsonrezidor.com/pdf/CIS\\_factsheet\\_18.02.2014.pdf](http://carlsonrezidor.com/pdf/CIS_factsheet_18.02.2014.pdf)) brand specifically targets patrons seeking a more relaxed, secluded, and down home experience. Carlson's new sphere of influence seeks to include and expand:

- [Radisson RED](http://www.radissonred.com/), (<http://www.radissonred.com/>) a new Carlson initiative which will launch in 2015. It will seek to capture the millennial traveler who places high value on technology and

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- streamlined, individual preference based experiences
- [The Quorvus Collection](http://carlson.com/news-and-media/news-releases.do?article=7845991) (http://carlson.com/news-and-media/news-releases.do?article=7845991) is also a new addition to the Carlson family of hotel brands. With Quorvus, Carlson is seeking to capture the ultra-luxury traveler who has tastes individual to themselves. The hotels will feature unique architecture and design elements, specific to each hotel location. Carlson has designated six lifestyle elements that will be the focus of their new collection: Wellness, Replenishment, Style, Entertainment, Inspiration, and Connectivity (Carlson 2014).
- Carlson Wagonlit Travel, who has built a reputation as one of the leaders in corporate travel, remains primarily focused on retaining and expanding their lead status within its core business segment

### *Carlson's Measures of Success*

When analyzing their various business entities to ascertain the level of success they want or hope to achieve, Carlson reviews several different components of their business. These include:

- RevPar or revenue per available room, which calculates revenue generated from room sales relative to the number of rooms available for sale
- EBITDA, or income earned before income tax, depreciation and amortization and gain on sale of shares and fixed assets and net financial items and tax
- Operating profit, which highlights income earned before income taxes are paid
- Total revenue, denoting what dollar amount was generated by the company various market offerings
- Revenue per region, separating income earned by geographical area, such as North America or Latin America
- Hotels and rooms in operation and under development, which gives the company a snapshot of where their current interests are dispersed and how quickly they are expanding
- Managed revenue or yield management, a hospitality industry standard which measures company's ability to increase revenues over a specified period of time

### *Hospitality Industry Landscape*

Nationally the hospitality industry is the leading private industry in terms of employment, employing approximately 14.8 million people nationally. Current total profits for the industry are around \$2.3 trillion. Leaders of the hospitality industry, (excluding Carlson), include Hilton, Starwood, Marriott, Darden, Wyndham, and CBTravel. The hospitality industry encompasses many separate entities, many of which are national employment leaders. Examples include (see appendix):

- The restaurant sector of hospitality employs approximately 13 million Americans, which represents 9% of the U.S. workforce.

It accounted for \$660 billion in sales (2012), with approximately 980,000 restaurants nationwide. Restaurant sales account for 4% of U.S. GDP

- The hotel sector employees approximately 1.8 million, with annual sales totaling \$163 billion (2013). There are about 53,000 lodging properties with approximately 4.9 million guestrooms in the U.S.

The hospitality sector is constantly growing and is highly competitive. Due to the relative size of the average hospitality establishment (90% of all restaurants employee less than 50 people), it is relatively easy for an individual to start a hospitality related business.

### *Carlson's 2013 Successes*

Though the current business outlook still remains fragile as we move from a global economic downturn to a more healthy and stable business environ, Carlson has been able to position itself well considering the difficult hospitality climate. For 2013, some Carlson's successes include (see appendix):

- Carlson Rezidor Hotel Group's new hotel signings increased by 111% in the America's and 71% in the Asia/Pacific region, making 2013 its most successful development year since the Great Recession in 2008.
- Carlson Rezidor added several properties in expanding and emerging markets, including China, Russia, Brazil, and in Mozambique, Africa. In fact, 66% of the new room signings in 2013 were in new and emerging market economies
- Carlson Rezidor increased revenue 4% over 2012, with \$7.5 billion total for 2013
- Carlson also opened 39 new T.G.I. Fridays restaurants worldwide representing the European, Middle Eastern, African and Asian Pacific theatres (as of quarter 4 of 2013)
- Carlson Wagonlit Travel still remains the worldwide leader in travel management, with 60 million transactions and \$26.9 billion in revenue. Revenue generation is down 2.7% from 2012, but Carlson Wagonlit has been able to expand its business reach to over 150 worldwide theatres, with particular strong growth in the Latin American, Indian, and Asian regions
- Carlson's brand loyalty program, Club Carlson, added approximately 2 million new members in 2013 to end the year at 12 million. Carlson also added a brand Visa card that has grown beyond expectations since it was introduced in late 2012

### *Strategic Management: Importance to Carlson*

The business environment in which Carlson competes is very complex, competitive and dynamic (changing often). The business environment is defined as:

"... the domain in which the customers, competitors, suppliers, and regulators of a firm exist in a context of rapid change and increas-

ing complexity in the broad global environment. In this context, opportunities and threats exist that are both immediate and long term. Managers must therefore choose strategies that will give them competitive advantage over their competitors. Therefore, the concept of strategy choice suggests that management is constantly engaged in making choices about how to compete (DeMicco, F.J., M. Cetron & O. Davies, 2015).

It is important for any hospitality firm to continuously “scan the environment” for threats from competitors, disruptive technologies and outside forces, and new hospitality innovations.

Below are some strategic theories and tools Carlson can employ to gain a competitive advantage in a hyper competitive hospitality and travel market.

### *1. Porter's Five Forces applied to Environment Scanning*

The task environment includes categories that have more direct impact and usually with more immediate consequences to a firm than the remote environment, e.g. market and consumer behavior, industry structure, competitors, government agencies, and suppliers.

Porter's five forces include three forces from 'horizontal' competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers (Porter 86-104)

The firm environment is especially important to hospitality enterprise. For hospitality firms, competition comes from international and national as well as local firms. In Carlson's case, while it is a well-known and admired company, there still is a certain degree of brand ignorance with respect to their offerings in the minds of certain travelers. Though their Radisson brand is arguably one of the most recognized names in the hotel world, [currently there are but 150 of them](http://carlson.com/news-and-media/news-releases.do?article=8055656) (http://carlson.com/news-and-media/news-releases.do?article=8055656) with about 31,000 rooms worldwide as of 2012. Compare that with Doubletree, which has 325+ locations around the globe. In addition, [other Hilton properties](http://bluemaumau.org/hotel_brand_loyalty_ranked), (http://bluemaumau.org/hotel\_brand\_loyalty\_ranked), as well as [Marriott and IHG](http://travel.usatoday.com/alliance/flights/boardingarea/post/2011/02/Loyalty-Traveler--World8217s-Top-20-Hotel-Brands/142913/1), (http://travel.usatoday.com/alliance/flights/boardingarea/post/2011/02/Loyalty-Traveler--World8217s-Top-20-Hotel-Brands/142913/1) all have excellent brand recognition and loyalty also, which makes it even more difficult for Carlson brands to compete for market share. The hospitality enterprise often competes at all levels, feeling pressure from international, national, or regional chains and the strength of their marketing programs, while also feeling competition from local firms. Under these circumstances Carlson managers can use Porter's Five Forces Model to monitor competition so as to ascertain what forces are driving changes at what levels and to craft/adjust business strategies accordingly.

### *2. Ansoff's Matrix Applied to Domain Definition*

The business environment of the firm is where the concept of strategic management begins. The business environment is defined as the domain in which the customers, competitors, suppliers, and regulators of a firm exist in a context of rapid change and increasing complexity in the broad global environment.

Management can adopt Ansoff's Matrix to identify the forces that will drive change, to seek opportunities that will add value to the firm in both the short and long terms, to determine the best opportunities for the future and invest in competitive methods that will match the opportunities (Edraw, 2014)

Carlson, in proposing to add hundreds of new hotels, must ensure that its franchisees, lessees and management companies be cautious and choose locations wisely. It must ask, is there a business need in this location? Are there sufficient customers for my hotel? [Oversaturation of a specific market](http://archive.azcentral.com/community/phoenix/articles/20130718phoenix-market-saturated-with-hotel-rooms.html) (http://archive.azcentral.com/community/phoenix/articles/20130718phoenix-market-saturated-with-hotel-rooms.html) area, though arguably an acceptable industry strategy, may not only hurt the owner's/franchisees of properties under development but may also confuse and disorient target customers due to redundancy. This can lead to customers looking for different offerings which may in turn deplete brand awareness and loyalty, particularly in the current business environment where customers are looking to maximize their dollar at the possible expense of a specific company's valuable repeat business.

### *3. SWOT Analysis applied to Strengths and Weaknesses Analysis*

A SWOT analysis can help Carlson management concentrate on allocating resources and uncover opportunities to create a sustainable niche in the market. It involves specifying the objective of the business venture and identifying the internal and external factors that are favorable and unfavorable for the organization to achieve its objective. To Carlson's credit, it does many things well across several different hospitality landscapes, which enables the company to consistently deliver strong returns on its revenues by its various companies. With its Ambition 2015 program in full swing, outlook for steady measured growth is expected for the coming year. There are, however, some areas of concern. Take for example overall company revenue from 2012 to 2013. When looking at the overall company revenues year to year, Carlson did not achieve an increase for 2013, as its generated system wide sales revenue decreased by 1.3%. A closer look at the calculations reveals that Carlson Wagonlit Travel's revenue generation decreased by a modest 2.7% year over year.

## Carlson's Key Challenges

Carlson faces formidable challenges with respect to attaining its stated objectives for 2015. In addition to increased competition, changing and evolving business environments, new and emerging technologies and a persistent global economic downturn, other issues to consider include:

- Unique in the hospitality industry sphere, the bulk of Carlson's annual profits come not from its hotel or restaurant brands but from its travel brand. While this in some ways is a plus it can also be a major impediment to growth for Carlson's other business ventures. In order to maintain the revenue stream it may need to focus primarily on retaining its travel clients, which may starve vital marketing and other investment dollars needed to keep its hotel locations modern and cutting edge. This may be one reason why Carlson's hotel brands are not as well known as other, larger hotel entities
- Carlson is also implementing a large scale renovation project for its Radisson and [Country Inn](http://www.hotelnewsnow.com/Article/10119/Country-Inn-owners-react-to-new-prototype) (http://www.hotelnewsnow.com/Article/10119/Country-Inn-owners-react-to-new-prototype) and Suites brands. There are also other brand standard initiatives, such as [transitioning from disposable utensils to silver and plate ware](http://www.startribune.com/business/141203483.html) (http://www.startribune.com/business/141203483.html) for Country Inn guests who are partaking of complimentary breakfast. For Carlson's franchisees these mandatory changes may be extremely costly, which in turn may cause them to look away from Carlson and on to other companies whom they deem more aligned with their financial means and aspirations
- With Carlson looking to expand into newer, less traditional markets such as Mozambique, Qatar and other African and Middle Eastern areas, learning and being able to adapt to local cultural norms and/or religious requirements becomes of utmost importance. Also, hiring the right talent who can communicate both with local and global business travelers will be a challenge to be considered. In addition, possible political volatility and instability should be an important investment factor thoroughly investigated prior to large scale investment.
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- Being a privately held company [may constrain the amount](#)

[of capital](http://www.investopedia.com/articles/stocks/08/privately-held-company-investing.asp) (http://www.investopedia.com/articles/stocks/08/privately-held-company-investing.asp) Carlson is able to raise for leveraging their growth ambitions. Though private companies allow owners to have much more control over their enterprises, publicly held corporations have more options at their disposal when funds are needed for expansion, renovation, capital expenditures, etc. Without stock buying options, Carlson may rely on personal revenue and holdings to much, which could leave them in the red now that they are aggressively expanding their brand.

- Carlson made significant changes to its enterprise in early 2014. As mentioned previously, Carlson has [sold its T.G.I. Friday's franchise](http://carlson.com/news-and-media/news-releases.do?article=8276385) (http://carlson.com/news-and-media/news-releases.do?article=8276385) and [also acquired the full Carlson Wagonlit Travel portfolio](http://carlson.com/news-and-media/news-releases.do?article=8578669) (http://carlson.com/news-and-media/news-releases.do?article=8578669). "With the close of this acquisition, Carlson secures full ownership of the global leader in travel management (Carlson 2014)," Carlson CEO Trudy Rautio explains. Being as though its restaurant business accounted for 71,000 of the company's employees and 2.7 billion dollars in sales in 2013, Carlson has significantly trimmed its earnings and market presence while taking on more risk (and possible reward) with the full Wagonlit Travel business now completely on their balance sheets. Carlson will need to adjust quickly to their new core business model and seek to craft effective strategies if it is to remain a global hospitality and lodging business leader in the years to come.

## Closing Thoughts

Looking at Carlson's market position, they enjoy many advantages. They are a global rewards program leader, they have stepped up their hotel property marketing budget, focus is now shifting to updating their brand image and expansion into newer markets, and they remain a travel management leader. With their company still looking to consolidate their market position across different hospitality segments, Carlson has done great things to ensure success. Recognizing and adapting to the newer global economic landscape should keep them at the forefront of the hospitality industry.

## Study Questions

- What in your view does Carlson contribute, or not contribute, to the industry that assists in keeping hospitality related companies an employment leader in the U.S.?
- When studying Carlson's Ambition 2015 initiative, name two specific areas where you would focus attention for property expansion. Use examples of why you would choose these locations and what some of the challenges may be in implementing your strategy.
- How can new technologies assist Carlson Wagonlit Travel with

securing the business of potential customers who are more used to traditional methods of making business travel arrangements? What would you consider to be the technology that will be most used in the coming years and how should Carlson ensure that they are prepared for more widespread adoption of this technology in the coming years?

- Why do you think hospitality rewards programs are so important? What are some of the challenges that a hospitality company faces when creating and marketing a rewards program to the consumer? How would you advise Carlson to market their program in order to reach their near term goals?
- You are a hotel franchisee looking to open a property in a major city. Based on factors identified within the case study, would you have any reservations about choosing Carlson as your franchise company? What would your expectations be from the parent company to help your business grow? Name some specific things Carlson could do that would help entice travelers to choose your property over your leading competitors.
- When looking at the hotel industry and the current economic landscape, which area would you suggest Carlson tailor its focus so that it can improve its overall revenue stream? Improved guest satisfaction? Better marketing initiatives for its franchisees? Would a combination of such initiatives work best? What should Carlson expect when implementing such strategies and which, if any, would you caution against.
- What if any challenges are there in expanding into newer, emerging markets with high return potential? In your own words, what should Carlson be most concerned with, and provide a blueprint for how they can overcome this concern.