WHERE IS THE VALUE IN GREENING YOUR BRAND? AN ANALYSIS OF THE CANADIAN HOTEL INDUSTRY

by

Emma Bedlington
Bachelor of Arts, McGill University, 2002
Double Major with Distinction in Geography and International Development

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Approval

Name: **Emma Bedlington**

Degree: **Master of Business Administration**

Title of Project: **Where is the Value in Greening Your Brand? An Analysis of the Canadian Hotel Industry**

Supervisory Committee:

Dr. Michael Parent
Senior Supervisor
Associate Professor
Faculty of Business Administration

Dr. Andrew von Nordenflycht
Second Reader
Assistant Professor
Faculty of Business Administration

Date Approved:

Abstract

This paper assesses the potential for a green hotel brand in the Canadian market, given the current industry trend towards environmentally friendly operations. To begin, an industry analysis of the competitive landscape is performed with a focus on the luxury hotel segment. A discussion of the key players in the Canadian market provides further context. The paper continues by analyzing the consumer decision process within the hotel industry, in conjunction with green consumer behaviour. Finally, given the financial benefits of eco-efficiencies within the hotel industry, it is shown that the creation of a green hotel brand will enable companies to maintain a competitive advantage, as environmentally friendly business becomes the norm.

Keywords: Canadian hotel industry; green consumer; green advantage; consumer decisions; eco-efficiencies; new market space; green consumer segmentation.

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Glossary

ADR	Average daily rate. ADR is defined as the total room revenue divided by the number of rooms occupied for a specified period of time.
CaGBC	Canadian Green Building Council
Eco-efficiency	As defined at the 1992 United Nations Conference on Development and the Environment by the World Business Council of Business Development, eco-efficiency refers to the savings of resources, energy and other inputs during the production of a good or service, with the goal of producing less waste and pollution throughout the production process.
LEED	Leadership in Energy and Environmental Design
RevPAR	Revenue per available room. The average revenue generated for each available room – demonstrates both the revenue generated per room and the occupancy rate.
USGBC	United States Green Building Council

1: Introduction

From Rachael Carson's jarring description of a future world characterized by damaged ecosystems in 1962's *Silent Spring,* to the United Nations Bruntland Commission on sustainable development in 1987 to Al Gore's *An Inconvenient Truth* in 2006, global awareness surrounding the impact of humans on the environment is at an all time high. Consumers are demanding more responsible alternatives and businesses are updating their products and services to fit this emerging trend. According to a 2008 UN report, green products and services currently account for $1.37 billion of the global market and are expected to grow to $2.27 billion by 2020 (UNEP Report, 2008). As such, although rebranding a product or company to be environmentally responsible does have a number of challenges, it can also be a significant source of differentiation and competitive advantage (Porter and Kramer, 2006).

Currently, eco-efficiency programs help a number of hotels in the Canadian market realize a competitive advantage. These measures of efficiency create cost savings and generate reputational capital for the hotel. However, how will these firms continue to distinguish themselves as the entire industry 'goes green'? Following an analysis of the Canadian luxury hotel industry, this paper will suggest how existing hotels can capture market space through the creation of a green hotel brand. Specifically, when moving into this emerging market, it is essential that firms implement a sound entry strategy thereby ensuring company brand image remains credible in the eyes of the consumer.

2: Canadian Hotel Industry

Industry Overview

Individuals travel and use hotels for a variety of reasons such as business, vacation or visiting friends and relatives. Hotels must therefore offer a variety of services to meet the demands of different consumer segments. For some individuals, a hotel may just be a place to stay for the evening, while for other travellers it may be their vacation destination. Hotels are classified based on the services that they offer, with limited service hotels offering only basic amenities while full-service hotels offer such additional services as room service, pool facilities, conference capabilities and luxury spa retreats. To help consumers understand the level of service offered, properties are often classified by a rating system of zero to five stars, though there is no global standard to date.

The Canadian hotel industry makes up 4% of the global market and, according to the Hotel Association of Canada; the 2007 Canadian hotel industry was worth $18.8 billion consisting of over 8,300 properties nationwide (Hotels & Motels Industry Profile: Global, 2008). The majority of these properties are located in major city centres, each with specific market characteristics that require a unique customization of services to match local demand.

Table 1 outlines the occupancy and revenue statistics for the 10 largest Canadian markets. Occupancy rate refers to the absolute quantity of rooms occupied during a given period. Average daily room rate (ADR) is the average cost of all occupied rooms sold during a given period. RevPAR or revenue per available room refers to the revenue generated per available room, regardless of its occupancy status. The differing market conditions are demonstrated through the variance between each of the Canadian markets listed in Table 1 below. Six of the ten cities saw an increase in the amount of rooms available in the market while nine in ten saw substantial decreases in room demand.

In contrast, the global markets saw sizable growth of 6.1% from $456.3 billion in 2007 to $484.3 billion by yearend 2008 (Hotels & Motels Industry Profile: Global, 2008). This divergence can be interpreted in two different ways. First, there exists regional variance in hotel room demand or second, that the market was undergoing substantial growth in the months leading up to the economic downturn of 2008. Consequently, this period of growth was able to offset the decline in demand during the second half of 2008 and was highlighted by the sharp decreased in room demand from April 2008 (pre-downturn) to April 2009 as shown in Table 1.

City	***Number of Rooms***	***Occupancy Rate***		***Average Daily Room Rate***		***RevPAR***		***Room Supply Change***	***Room Demand Change***
		2009	***2008***	***2009***	***2008***	***2009***	***2008***		
Niagara Falls	8,703	50.50%	46.50%	$118.83	$119.95	$60.10	$55.78	-1.80%	6.60%
Winnipeg	3,410	70.50%	71.10%	$110.45	$106.77	$77.87	$75.91	0.00%	-0.80%
Halifax	4,186	62.70%	68.30%	$118.07	$122.04	$74.03	$83.35	3.90%	-4.60%
Edmonton	8,943	69.60%	77.10%	$126.75	$127.19	$88.22	$98.06	2.70%	-7.30%
Montreal	9,998	58.10%	64.80%	$132.93	$144.60	$77.23	$93.70	1.40%	-9.00%
Ottawa	7,161	60.30%	69.80%	$133.81	$137.53	$80.69	$96.00	2.60%	-11.40%
Vancouver	8,265	65.70%	78.50%	$145.98	$152.22	$95.91	$116.45	2.10%	-12.30%
Toronto	14,465	60.30%	69.80%	$145.07	$164.14	$87.48	$114.57	1.10%	-12.60%
Calgary	8,649	62.20%	75.00%	$142.61	$154.45	$88.70	$115.84	-1.00%	-17.90%
Quebec City	4,023	48.50%	60.60%	$116.71	$127.47	$56.60	$77.25	0.00%	-20.00%

Table 1: April 2008 and April 2009 Canadian Occupancy Statistics (Adapted from Hotel Association of Canada, 2009)

Occupancy rates over the same period have unsurprisingly also decreased. With the exception of Niagara Falls, occupancy rates in each of the large Canadian cities have decreased when comparing April values (Figure 1).

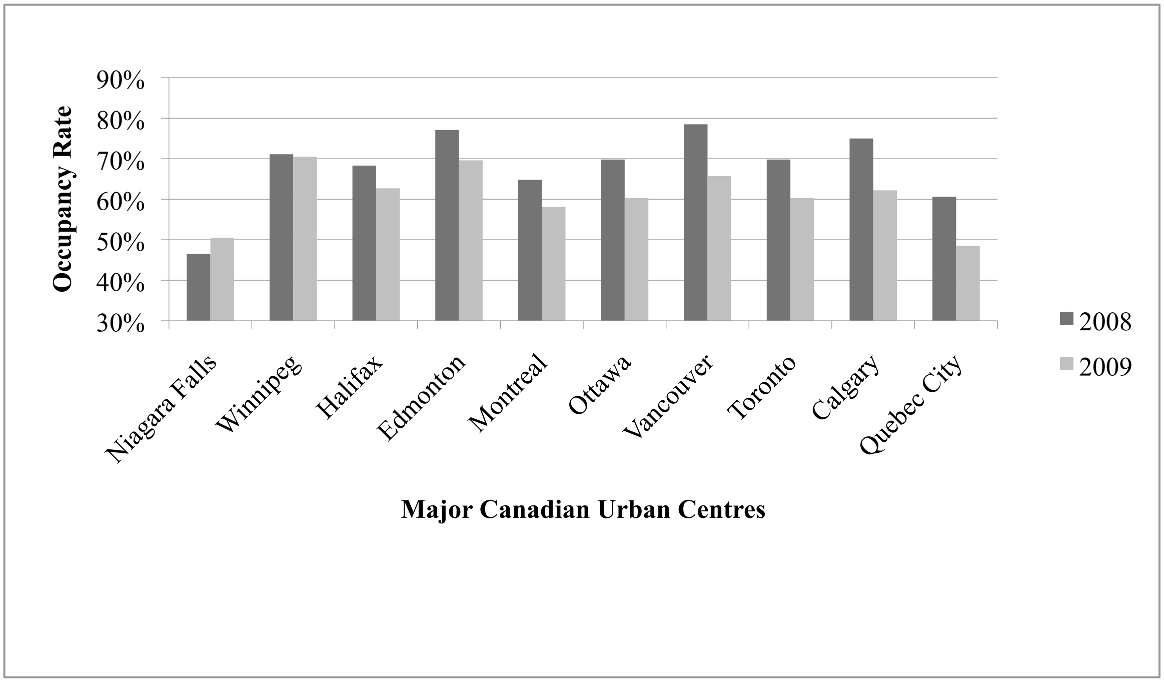

Figure 1: April 2008 and 2009 Occupancy Rate (Adapted from Hotel Association of Canada, 2009)

Revenue per available room (RevPAR) is the most important metric for analyzing the financial performance of a hotel. RevPAR is calculated as the product of the occupancy rate and the average daily room rate and demonstrates how well a property can turn its available rooms into real revenue. In other words, a property with high RevPAR indicates that it is able to fill the majority at a high daily room rate. However, using this metric alone to judge a hotel's operational performance is flawed. RevPAR gives a good overview of the revenue generated by a property, however this can occur through either higher occupancy rates or higher daily rates, or both. This is highlighted well with the example of Winnipeg. On average, even though Winnipeg's hoteliers had a decreasing occupancy rate (Figure 1), they were able to increase the daily rate thereby increasing the province's overall RevPAR value (Figure 2).

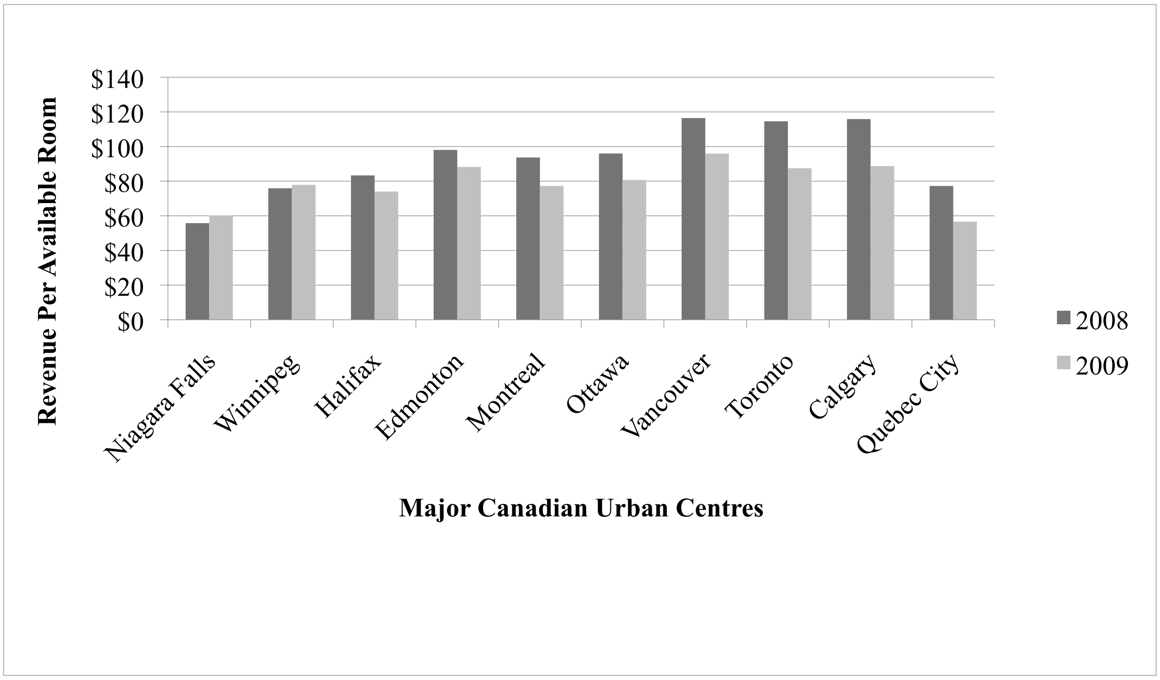

Figure 2: April 2008 and 2009 RevPAR Values (Adapted from Hotel Association of Canada, 2009)

Despite the poor performance over the past year, the Canadian hotel industry continues to expand with 223 projects with 26,172 rooms currently under construction, a 6% growth over the past year (Smith Travel Research, 2009).

Overall, the Canadian hotel industry has been noticeably affected by the 2008 economic downturn. Hotel owners have begun to lower prices in an attempt to increase occupancy rates. This, combined with declining consumer demand, has resulted in a lowering of RevPAR values.

Industry Structure

The Canadian hotel industry is a relatively complex combination of franchises, sole-proprietorships, branded-chains and property management companies, contributing to the strong competition that is seen throughout this industry. There are three predominant business models in the lodging industry: franchises, ownership companies and management companies. These relationships are shown in Figure 3.

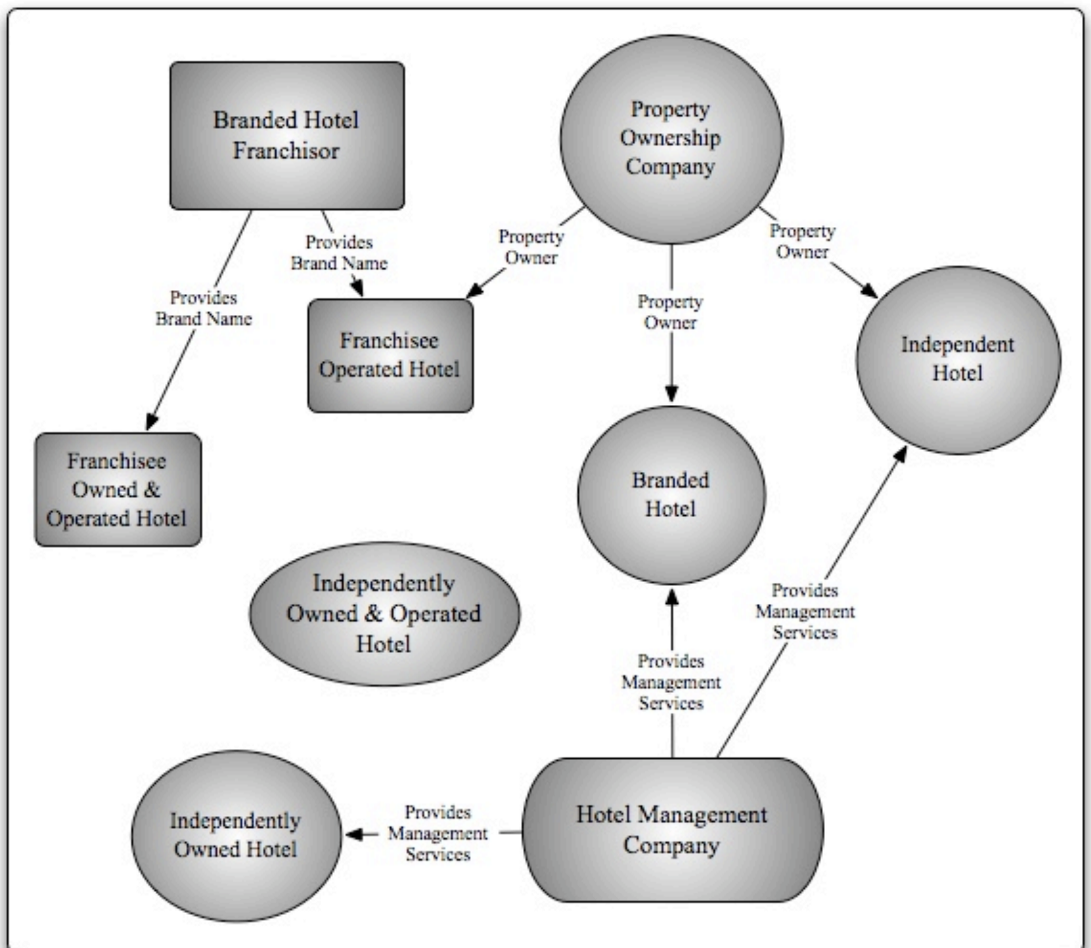

Figure 3: Industry Ownership and Operating Structure

Franchises

Franchises are an attractive method for entrepreneurs to enter the lodging market as they provide an existing operational and management framework. A recognizable brand will attract guests who are looking for a specific set of amenities. Brand characteristics are determined by the franchise and are audited for consistency throughout the chain, thus ensuring that each location meets company standards. Consumers develop a loyalty to a specific brand based on the consistent delivery of similar services throughout the chain. Given that a chain must maintain these specific standards, any operational or property changes must be approved by the franchise. This may result in longer approval time for efficiency modifications, meaning that franchised hotels may be slower to respond to changes in consumer needs (such as demand for "green-ness" or sustainable practices). However, high brand visibility is attractive to investors and lending agents, helping franchisees to more easily secure funds for such property enhancements and upgrades.

The management resources and knowledge pool of the franchise are also highly attractive to hotel operators. This often includes access to online reservation networks, operational best practices and management guidelines. In exchange, franchisors benefit by receiving a percentage of room sales without the need for significant capital investment. Overall, branded hotels are seen as having lower risk for both operators and investors, making them an attractive and popular avenue to enter the lodging industry.

Ownership

Corporations, private partnerships and real estate income trusts (REITs) are several entities that commonly invest in the ownership of lodging properties. These capital-intensive investments offer investors a high degree of control, with the main purpose of realizing the future gains in property value. Ownership companies will often acquire properties in prime locations and work to increase the value of the property through strong brand management and marketing along with extensive renovations and upgrades. The ownership companies may also own the property of a hotel franchise, which is then operated by a third party (Figure 3). The current trend of these property ownership firms is to move away from ownership in favour of strategic management and brand enhancement, divesting away from high capital holdings (Hotels & Motels Industry Profile: Global, 2008).

There are also a number of sole proprietorships in which an individual may independently enter the market with a moderately sized inn or guesthouse. These independent owners must choose between the benefits and security of a recognizable brand name through a franchise or the freedom of an independent entity without management regulations (Figure 3).

Property Management

Hotel and property management companies coordinate and organize all operational aspects of hotel management including employee management, customer service, grounds maintenance, inventory and logistics. These firms may either operate their own holdings, those of a property ownership company, or a combination of the two (Figure 3). Service fees linked to cost savings and RevPAR values are often created as an incentive for efficient management practices. As such, the property management companies specialize in customer service, the use of resources and employee retention. One hotel brand may employ several different management companies to operate properties in different locations. For example, New Castle Hotels operates properties under the Marriott and Hilton brands, as do Starwood Hotels.

Industry Analysis

In order to understand the competitive landscape in the Canadian luxury hotel segment, this next section will analyze the five forces of competition as outlined by Michael Porter (1980). By determining the factors affecting each of the competitive forces it will be possible to identify key factors driving company profitability within the industry. As such, the strongest competitive forces determine the profitability of an industry and are the most important when developing new strategies (Porter, 1980).

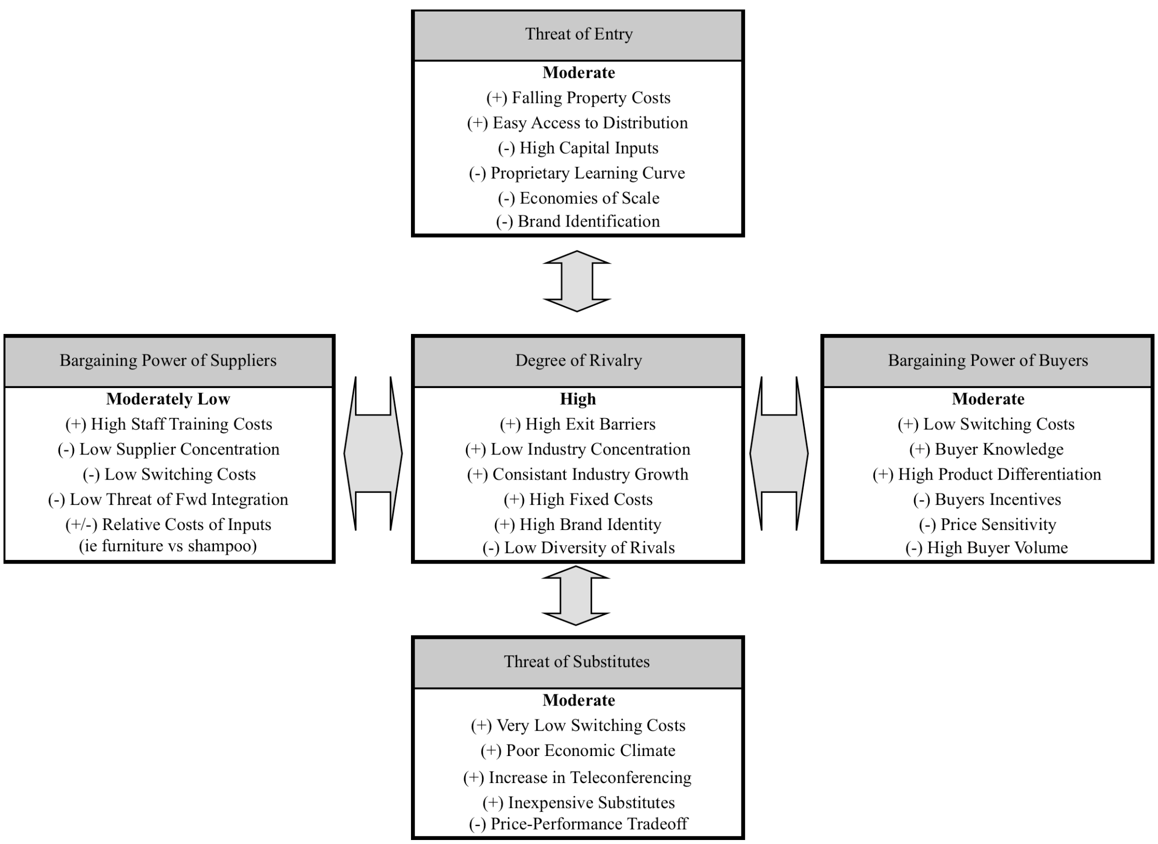

Figure 4: Five Forces Analysis for the Canadian Hotel Industry (Adapted from Porter, 1980)

Threat of Entry

The threat of entry is characterized by the ability of new entrants to drive competition through increasing existing capacity and capturing market share (Porter, 2008). If barriers to entry are low, new entrants will be able to more easily enter the market and reduce the level of profitability for existing firms.

New entrants to the hotel industry increase the supply of rooms available and work to gain market share which puts pressure on prices, costs and the rate on investment necessary to compete (Porter, 2008). Hotels try to create entry barriers through the development of competitive advantages. Pre-existing hotel chains can leverage their existing capital when entering a new market, making them highly competitive. In terms of investment costs, the average per-room price was $116,500 for all 2008 Canadian hotel transactions (Colliers Canadian Hotel Investment Report, 2009). Comparatively, the capital costs for luxury hotels are significantly higher, creating a substantial barrier to entry for new companies.

Pre-existing and large hotel companies seek to diversify the locations of their properties to help reduce the risk of location-specific market changes. This ability to diversify a company's holdings requires a large amount of capital as well as strong industry connections, which is an advantage for incumbent firms. Even despite the recent economic uncertainty, companies are continuing to enter the Canadian market; in six of the ten largest Canadian markets, the number of properties continues to increase (Table 1). The average per-room-price decreased 30% from 2007 to 2008, allowing additional firms to enter the market (Colliers Canadian Hotel Investment Report, 2009). Consequently, with more rooms available, individual firm profitability is decreasing.

Aside from these large capital requirements, it is possible to quickly enter the market with a small, independent hotel as a sole proprietor. Using a highly differentiated luxury strategy, it is possible for these smaller operations to capture significant market share away from larger industry players. According to a 2008 EuroMonitor Report, boutique hotels are growing in popularity and numbers worldwide. These smaller properties differentiate themselves by focusing on trendy décor, modern amenities and highly personalized service. This growing market segment has two interesting trends. First, a number of boutique hotels are becoming branded and expanding into various markets; and second, larger chains are entering the market by opening boutique hotels. For example, Starwood Hotels launched *W Hotels*, and was the first chain to launch a boutique brand. With 26 locations worldwide, *W Hotels* have put an emphasis on trendy design and hip locations, targeting young, urban travellers (EuroMonitor Report, 2008). Therefore, chains and independent owners are able to enter the market without large capital expenditures, increasing the threat of entry.

The proprietary learning curve needed to determine industry efficiencies and the current trend of backwards integration to form real estate management companies, combine to form additional entry barriers. The ability of larger companies to develop business models that decrease the need for professional services helps them to offer premium services at a reduced cost and gain a competitive advantage over new entrants. The knowledge needed to develop operational and cost-saving efficiencies therefore acts as a barrier for new hotel properties.

Finally, on a per-room basis, when compared with smaller properties, advertising and marketing costs are lower at larger hotels with a greater number of rooms. By taking advantage of economies of scale, larger hotels are able recognize a cost advantage when implementing various marketing campaigns. These marketing efforts, in addition to multiple locations, work to further increase brand awareness. As such, consumers may develop loyalty to a specific chain that has various locations as they come to expect a standard and familiar range of services. By creating this strong relationship with the consumer, hotels increase the potential for repeat business and as such, further increase the barriers to entry.

With the recent decrease in property costs, the barrier that was previously high has lowered, allowing for the entry of new properties as evidenced through increasing room supply throughout most of the Canadian market (Table 1). However, industry-specific knowledge and efficiencies, economies of scale, the strength of incumbent brands and customer loyalty combine to strengthen the barriers to entry. Therefore, the threat of new entrants is assessed as moderate.

Bargaining Power of Suppliers

Suppliers work to capture value through squeezing their buyers by charging higher prices and controlling the quantity of product supplied. When suppliers have power, they are able to maximize profits in industries that are unable to pass along price increases to their own customer (Porter, 2008). Suppliers to the hotel industry are diverse and as such, have varying degrees of bargaining power.

Hotels make use of an extensive network of suppliers including: labour, furniture and fixtures, household goods, toiletries, linens, foodstuff, management services, marketing companies, interior designers, gardening supplies and property maintenance companies. Without one single dominant supplier, and varying switching costs for the hotel, bargaining power of suppliers is diverse. For example, grocery and produce suppliers operate in a low concentration environment, increasing a hotel's ability to pressure their supply chain for competitive rates and discounts. On the other hand, there may be few dry cleaning facilities that have the ability to handle a hotel's daily capacity. These suppliers would therefore have a high level of bargaining power and be able to capture additional value by demanding higher prices.

Labour is one of the most important inputs in a service-based industry, especially given payroll expense and the high investment in employee training. Labour costs accounted for 33.6% of total revenue in 2007 according to a study of Canadian hotels (PFK Canada Consulting, 2007). Customer service is a key success factor for a hotel and without high service standards hotels will have little ability to generate return business and brand loyalty. In the case where labour unions exist, the supplier has a high level of bargaining power. Therefore, maintaining strong relationships with employees is a key success factor in managing bargaining power of labour, when viewed as a service supplier.

Overall, the threat of forward integration by suppliers is minimal, with the exception of property management or real estate income trust companies. The current trend is for traditional hotel companies to move away from property ownership and towards property management, having a very negative effect on supplier power.

Larger hotel chains have comparatively higher switching costs associated with maintaining brand constancy throughout a chain, increasing supplier power. Furthermore, suppliers who offer a product which represents a lower level of capital spending, such as toiletries, will have comparably less bargaining power than a company who provides a much more costly product for the buyer, such as furnishings or property management services.

In summary, there are a variety of suppliers to the hotel industry, each with differing levels of bargaining power. A similar pattern holds for switching costs between suppliers as this largely depends on the size of the hotel company and the relative cost of the good. Furthermore, there is little risk of forward integrations resulting in bargaining power being assessed as moderately low.

Bargaining Power of Buyers

Buyers, or in this case, hotel guests, work to create value for themselves by demanding better quality or additional services. As with suppliers, buyers have differing levels of power given the consumer segment to which they belong. With increased access to hotel-specific information detailing property amenities and online guest reviews, consumers now have greater power when selecting a hotel. Currently there are a number of websites that allow consumers to search multiple databases simultaneously and compare properties based on different criteria such as location, cost, star rating, amenities and dates available. *Kayak, Expedia, Priceline, Hotwire* and *Travelocity* are five of the most common sites, with *Expedia* being the first record from a Google search of “book hotels online Canada”. Expedia allows customers to book flights, hotel rooms, pre-paid vacations and car rentals at discounted prices. Furthermore, travel consolidation websites like *Kayak* allow the user not only to book travel arrangements but also to compare the price of a room at a specific hotel with its four primary competitors (*Hotels.com, Priceline, Expedia* and *Travelocity*). With fierce competition between online travel booking sites, many offer prices which fall below the price listed on the hotel's own website. In response, many hotels offer price guarantees stating that they will honour prices listed on third-party booking sites. However, giving consumers additional information about various properties simultaneously has meant that they are able to demand lower prices and improved service from hotel companies. To summarize, by increasing the ease of comparison between properties, travel consolidation websites reduce information asymmetry and greatly increase the bargaining power of consumers.

In each of the Canadian urban centres, consumers have a wide variety of accommodation alternatives. Luxury hotels spend a great deal of effort to differentiate themselves from their competitors through flashy marketing campaigns, brand-name spas, boutiques, world-class restaurants and exceptional customer service. In addition to the travel booking and consolidation websites discussed above, travel rating and opinion websites also provide potential guests with additional information. *TripAdvisor* is the most popular travel opinion website with over 25 million user generated travel reviews and tips (TripAdvisor, 2009). Initially the website started as a forum for individuals to discuss their past hotel experiences. The website has now expanded to eight countries and partners with 18 online travel booking websites. The creation of such web-based travel companies has greatly affected the level of buyer power in the hotel industry. With access to price comparisons and consumer driven opinions with comparatively less bias than hotel home pages, buyer power is increasingly moderate as a result of improving access to information.

However, consumers in the luxury market are the least price sensitive of all consumer segments. In fact, the high-end luxury segment is the only group willing to pay more for their accommodations despite economic uncertainty (Market Matrix, 2008). As such, the luxury customer has less buyer power when contrasted with consumers from other segments who are more price-sensitive.

As the Internet continues to have a larger role in reducing information asymmetry, consumers are able to gain increasing amounts of bargaining power. Given that fellow travellers provide much of this information, consumers are able to make more informed decisions based on less biased information. Finally however, when focusing on the luxury hotel segment, this increasing access to information may not have the same effect on bargaining power given that this segment is largely price-insensitive. Overall, the power of buyers is assessed as moderate.

Threat of Substitutes

Substitution occurs when the same or similar function of an industry's product can be performed by different means (Porter, 2008). In industries with elastic goods, periods of economic uncertainty increase the threat of substitution as consumers shift away from luxury items. The economic downturn in 2008 has resulted in consumers reducing the length of their stay, or choosing not to travel as frequently. For the vacation traveller, staying with relatives, friends or shortening one's stay are the most common indirect substitutes. Guests may also switch to a less expensive option or decide to stay in a hotel with fewer amenities and a lower per-night cost. However, as mentioned above, within the luxury hotel segment potential guests are the least price sensitive, implying that this segment is less likely to substitute away from upscale properties than those consumers in the mid-range segment.

Another threat of substitution is simply reducing the number of hotel stays. This is increasingly the case for businesses looking to reduce their travel expenses. Teleconferencing is increasingly becoming a threat for the hotel industry with 40% of knowledge workers spending more time in teleconferences (Campbell, 2008). In an attempt to reduce this threat, a number of hotel companies are expanding their meeting and conference facilities to have state-of-the-art teleconferencing technology. On June 30th 2009, both Starwood and Marriott announced that they plan, by year's end, to install TelePresence Suites in 10 and 25 properties, respectively (Kirby, 2009). The recognition of this trend in telecommunication may help to increase the number of conferences hosted by a property. For example, firms may be looking to reduce total travel expenses and thus only invite individuals from the home country, while those overseas attend 'virtually'. Hotels outfitted with teleconference capabilities would be able to capture this virtual conference segment and expand market share even in a period of travel expense cutbacks.

Consumer switching costs are low between different accommodation options. As such, many companies have created incentive and loyalty programs to help reduce this threat. Through these loyalty programs, hotels often offer free upgrades, special services and priority treatment to help sway consumer choice and increase the perceived switching cost.

Reduced business travel due to the economic slowdown has increased the threat of substitution for corporate travellers. In contrast, consumers of the luxury hotel segment are less likely to substitute away from luxury accommodation. Again, the threat for different consumer segments varies and the overall threat of substitutes is categorized as moderate.

Degree of Rivalry

Rivalry will often take the form of price discounting, the introduction of new products, advertising campaigns and improvements in customer service. According to Porter (2008), the degree of rivalry within an industry is dependant on both the *intensity* and *basis* on which firms compete. Also, higher levels of rivalry are seen in industries with several large players that are equal in size or those with many small players.

Concentration ratios highlight the amount of competition within an industry. More specifically, they are used to compare the size of the industry's largest firms to the industry as a whole. The Canadian hotel industry has a relatively low concentration ratio (measured as C4) of 18.6% when using the Hotel Association of Canada industry revenue of $18.8 billion (see Appendix A for calculation). In other words, the top four firms in the Canadian market account for just over 18% of the total market. This low ratio indicates that there are a high number of firms in the market, without any significant players dominating the competitive landscape, which contributes to rivalry in the industry.

Secondly, high barriers to exit contribute to the level and intensity of competition between firms. Within the Canadian hotel industry the barriers to exit are moderate, especially for a large company with numerous holdings. Many hotels undertake high capital expenditures on renovations and upgrades to maintain property value. When firms are unable to recuperate these expenses upon divestment, leaving the market is financially unattractive, creating high barriers to exit. Conversely, it is not any easier disposing of properties that have not been maintained creating a dilemma for many property owners, especially during unfavourable market conditions. More specifically, with a number of companies divesting away from ownership, property maintenance at licensed and franchised hotels is likely to be overlooked (S&P Industry Report, 2009). With competition to capture market share increasing, a number of large renovation projects have begun by some of the large hotel chains. Mid-scale hotels are now being outfitted with amenities that were once only found in upscale properties. Similarly, economy hotels are now offering spa-quality shampoos and lotions, free Internet access and in some cases, flat-screen televisions (S&P Industry Report, 2009). These upgrades create competition based on price and result in increased rivalry between hotels and also, between hotel segments. However, despite the current unfavourable economic conditions, a number of companies are choosing to invest in large expansion projects. For example, the Fairmont group has plans to open 23 new properties between now and 2013 (Fairmont, 2009). Similarly, Four Seasons has plans to open upwards of 15 properties by 2012 (Four Seasons, 2009). This continued increase in capacity should further increase rivalry, especially if demand grows at a slower pace.

Hotel properties typically have high fixed costs including mortgage expenses, rental expenses, insurance, depreciation and amortization and property tax. Companies with a number of properties are able to take advantage of economies of scale; reducing susceptibility to local factors affecting travel, such as travel bans or weather related phenomenon. Firms that are unable to take advantage of economies of scale must focus on achieving consistent high occupancy rates and expanding their share of the market, which generally means competing by lowering price, which thus increases rivalry.

Hotel room nights are limited in the sense that they can only be sold once. In another way, they are perishable - any unused hotel capacity can never be recovered. The time-sensitive nature of hotel rooms increases price competition and rivalry. However, firms must be careful not to compete along price alone due to the consumer perception of service quality, as it is associated with service price. Competing along price alone can be highly destructive to profitability because price competition moves profits directly from an industry to its consumers (Porter, 2008).

Throughout the hotel industry there is a great degree of differentiation between properties. Aside from the price point, which divides hotels between the different classes of budget, moderate, business and luxury, properties seek to find additional dimensions of competition. Hotels may offer specific amenities, services or facilities to create differentiation and therefore reduce rivalry. However, within the luxury hotel segment there is less differentiation between brands in terms of the amenities offered. Luxury hotels favour differentiation based on high levels of customer service and creating a memorable experience for guests. This lower level of differentiation results in higher rivalry within hotel classes in comparison to lower rivalry between hotel classes.

As highlighted in Table 1, demand for hotel rooms is decreasing in nine out of ten of the largest Canadian markets. Simultaneously, six of the ten markets have seen an increase in the supply of rooms. This increases rivalry, as there are fewer guests to fill the occupancy needs of a growing number of available rooms. In reference to Table 2, rivalry will remain high in the Canadian market throughout 2009 according to demand and supply estimates from PFK Canada Consulting. In 2010, Canadian hotels will see an increase in hotel room demand, thereby reducing the rivalry between firms.

Year	*Hotel Room Supply*	*Hotel Room Demand*	*Net Difference*
2009	1%	-2%	-1%
2010	1%	3%	2%

Table 2: Canadian Hotel Room Demand (Adapted from PFK Canada Consulting, 2009)

Overall, the industry is characterized by a low concentration ratio that results in many properties competing for a finite amount of business, limiting profitability. Luxury properties also face exit barriers given high capital investments and the current economic downturn. Finally, low hotel occupancy rates represent lost potential income with relatively low marginal costs. This encourages hotel owners to increasingly compete on price to generate revenue, if even below average cost values. As such, rivalry within the Canadian hotel industry is assessed as high.

Industry Analysis Implications

There are a number of factors that are driving profitability in the Canadian luxury hotel industry which have been highlighted through the industry analysis above. The increased level of rivalry within the industry has forced hotel owners to compete more on price, therefore reducing property profitability. Furthermore, constant changes in technology and the resulting access to information has drastically increased buyer power, resulting in further losses to profitability.

In an effort to reduce these strong forces of competition, successful hotel companies' display three key success factors that positively contribute to overall profitability. First, given the high level of rivalry, hotels that are able to increase perceived switching costs through loyalty and reward programs are able to improve customer retention, thereby expanding market share. Secondly, hotels that have been in operation for longer periods of time are able to take advantage of proprietary information that translates into cost savings through the development of operational efficiencies. Finally, successfully implementing a highly differentiated strategy allows hotels to distinguish themselves from similar properties operating in the same segment. This ability to add value to the consumers experience results in increased profitability through increased occupancy rates. These drivers of profitability combine to form the competitive landscape of the Canadian luxury hotel industry that will now be further explained through a discussion of the key players in the market.

Key Players in the Canadian Market

The Canadian luxury hotel market is dominated by several large brands (Table 2) that operate properties in each of the large urban centres. For the purpose of analysis, this paper will focus on the greening of hotels based on their brand name, rather than their management company, as this is the company image that consumers recognize. These five companies are the major players in the Canadian luxury hotel segment with many other smaller companies competing for market share (Appendix A). Though smaller, independent properties may not hold a nationally recognized brand, they nevertheless threaten to offer strong competition to the dominant chains.

When analyzing hotel properties RevPAR is the ideal basis for comparison as this matrix considers both the occupancy rate and revenue generated per room. However, given that the Canadian hotel industry is a mixture of public and private operations, it is difficult to determine average daily rates and RevPAR values for specific properties. Therefore, in order to develop a baseline for ease of comparison, each hotel-specific website was visited and the rack rate for one standard king room for Saturday, September

5th, 2009 was queried (Table 3). These rates represent the standard cost of one room for the Saturday of a holiday weekend. In addition to these rates, each hotel had various promotional rates available for guests willing to pay in advance or book a longer stay. Further, both Fairmont and Four Seasons, two direct competitors in the luxury hotel segment, were offering a 'book two nights, get one free' promotion at the time of research (July 18, 2009).

City	***Fairmont***	***Four Seasons***	***Marriott***	***Sutton***	***Shangri La***
Vancouver	$299.00	$295.00	$299.00	$319.00	$345.00
Toronto	$389.00	$395.00	$449.00	$150.00	Opening 2012

Table 3: Luxury Hotel Room Rate Comparison

Since there is often not the same industry mix of companies in each large Canadian city, hotels must work to differentiate themselves in the local market. Those with thorough market penetration are able to take advantage of customer loyalty, but they still must take into account local market characteristics and the strengths of their competitors.

Four Seasons Hotels and Resorts

Four Seasons Hotels and Resorts Ltd is a luxury hotel chain operating three branded hotels in Toronto, Vancouver and Whistler. The Canadian company began in the 1960s when Isadore Sharp built a 125-room motel in downtown Toronto. By the end of the 1970s the company had expanded to include 10 properties across Canada, one in London, England, as well as several management contracts throughout the United States. The London location was a key turning point in the companies overall strategy – offer high quality service in a down-to-earth manner. According to Sharp, the London location would be “a personal, down-to-earth hotel. Not for dukes or duchesses, but for people who want to be treated that way, and are put off by the stuffy formality of traditional grand hotels.” (Four Seasons, 2009b)

Throughout the 1970s and 1980s the company’s four business pillars were formed: quality, service, culture and management. In the 1990s the company moved to expand into several tropical resorts and opened its first Asian hotel, Tokyo’s Cinzan-so Gardens. In 1992 the company was able to further its expansion throughout Asia following the acquisition of Regent International Hotels. Throughout the 2000s, the company has continued to expand with locations in China, the Middle East and several tropical resort destinations. After previously being listed on the Toronto Stock Exchange and the New York Stock Exchange, Four Seasons became privately owned by Bill Gates and Prince Al-Waleed bin Talal in 2007 for $3.8 billion (The New York Times, 2007). Today, the company operates hotels under two brands: *Four Seasons* and *Regent Hotels*. Four Seasons is currently undergoing an aggressive expansion throughout a number of emerging markets with proposed locations in Puerto Rico, Bangkok, Maldives, Phuket, Manila, Kuala Lumpur, Abu Dhabi and Doha.

The competitive strength of Four Seasons rests with a strong public image that is well aligned to its four pillars of quality, service, culture and management. Given the high level of brand recognition due to the extent of Four Seasons’ global presence, travellers are able to find a location in almost every major city. With such a high level of market penetration and a strong reputation for outstanding customer service, Four Seasons is able to capitalize on consumer loyalty from one location to the next.

Fairmont Hotels & Resorts Inc.

Operating in over 90 locations worldwide, with 21 hotels across Canada, Fairmont Hotels and Resorts Inc. (Fairmont) operates luxury properties for the indulgent traveller. Fairmont's portfolio has been focused on properties of historical and cultural significance with more recent acquisitions displaying a cosmopolitan style. Founded by sisters Tessie and Virginia Fair, the original Fairmont Hotel opened in San Francisco in 1907. The Fairmont brand has been synonymous with fame and fortune with numerous royal families and celebrities staying at various properties throughout the chain's history. In 1999, Fairmont acquired Canadian Pacific Hotels and Resorts, adding a number of prestigious and historical buildings to the company. The company bought Delta hotels in 1998, but this was seen to dilute the brand image and the subsidiary was sold in 2007. During the same year, the Fairmont was bought by Kingdom and Colony to become Fairmont Raffles Hotels and Resorts.

More recently, the company has sought to highlight its ongoing environmental commitment that dates back to 1990. Fairmont prides itself as one of the first hotel companies which began to integrate environmentally friendly initiatives into company operations. Fairmont recently held its first Green Travel Summit this past March at its New Port California location, bringing together industry members, vendors and supporting industries to encourage best practices and information sharing in the area of environmental stewardship and responsibility. In 2007, Fairmont published the 3rd edition of its *Green Partnership Guide for the Hotel Industry*, sharing best practices and lessons learnt from previous green initiatives. As the industry's environmental pioneer, Fairmont seeks to not only realize the benefits from eco-efficiencies, but also use this position as a way to differentiate itself from the competition.

Another cornerstone of the Fairmont brand is the corporate image of tradition and heritage. With the acquisition of the Canadian Pacific properties in 1999, the Fairmont's Canadian properties have the distinction of being some of the most historically significant buildings in the country. For example, the Fairmont Le Chateau Frotenac in was built in the late 1800s by William Van Horne the then general manager of the Canadian Pacific (CP) Railway, as the ideal stopover for CP travellers and is one of the most prominent buildings in historic Quebec City.

Additionally, with 21 locations in many of the major tourist destinations across Canada, Fairmont has the added advantage of high brand recognition. This thorough market penetration gives Fairmont an advantage over the rest of the luxury hotel industry because the company as a whole is less susceptible to regionalized changes in demand.

Marriott Corporation

Marriott International owns and operates 59 properties across Canada, including 14 bearing the flagship Marriott name targeting luxury business traveler. Marriott Corporation began in Washington D.C. in 1927 as a root beer stand and has grown to include 3,200 properties worldwide.

Following a start in the catering business, the first Marriott property, the 365-room Twin Bridges Motor Hotel in Arlington, Virginia opened in 1957. With J.W. Marriott Jr., named as president in 1964, the company expanded to purchase its first resort property and open its first international hotel in Acapulco, Mexico by the end of the century. Throughout the 1970s Marriott continued to grow, opening two theme parks, a property in Amsterdam, Holland and acquiring its first hotel management contracts, signalling an important strategic change away from hotel ownership and towards hotel management. By 1989 Marriott opened its 500th hotel, entered the vacation time-share market and acquired Host International Inc., a global property management company.

In 1992, Marriott International was formed with the division of Host Marriott, a real estate income trust (REIT), from Marriott Corporation. Marriott continued its growth in the global market, acquiring the Ritz-Carlton Hotel Company in 1995, a high-end luxury brand that currently owns one property in Montreal and a second property due to open in Toronto in 2010. Marriott bought The Renaissance Hotel Group was bought in 1997 and subsequently introduced the TownPlace Suites, Fairfield Suites and Marriott Executive Residence brands, further expanding the scope of Marriott properties. In 2002, Marriott reported having a substantial market share with control of 8% of the North American market (Marriott, 2009).

As reported on their website, Marriott's core corporate values are centred on customer service, hands-on management and doing business the "Marriott Way." Although this concentration on the customer and the customer experience is common throughout the lodging industry, Marriott has made a point of highlighting these characteristics in their social responsibility report.

Currently, the company operates under 20 different brands. Holding such a diverse profile offers some shelter from regionalized changes in the hospitality industry, allowing Marriott to spread risk amongst its numerous properties. However, these numerous brands may also cause some confusion for consumers when they are selecting a property. Overall, Marriott's diverse portfolio is both a risk and a source of competitive advantage for the company. For the purpose of analysis, this paper will focus on the upscale *Marriott Hotels and Resorts* branded properties that operate in the same consumer segment as Fairmont and Four Seasons.

Other Players

With three Canadian locations in Edmonton, Toronto and Vancouver, Sutton Place Grande Hotel Group Inc (Sutton) strives to offer top quality lodging in a traditional, elegant European setting. The Sutton Place Hotel Group is a private operation that targets the luxury accommodation market offering a range of services. The Sutton Place Vancouver is one of only two Five Diamond AAA properties across Canada and has recently undertaken a number of green initiatives to compete in the local market. In contrast, the Sutton property in Toronto is comparatively dated and competes in the mid-scale market (Table 3). Significant property renovations are needed to solve this brand mismatch and firmly establish Sutton Place as a luxury chain across Canada.

Shangri-La Limited owns/operates 64 properties in Asia, the Middle East and North America specializing in contemporary luxury with an Asian flare. The strong brand recognition of Shangri-La is generated by its current holdings of 64 properties, with 19 new properties set to open by 2012. The 61-story Shangri-La Living Hotel and Residences opened in Vancouver in September of 2008. This is the first Shangri-La property in North America, with a second property set to open in 2012 in downtown Toronto. Shangri-La is not yet a dominant player in the Canadian market, though as the company continues to expand, competition will increase in the cities in which it operates.

Key Player Implications

The Canadian luxury hotel market is made up of a number of players who own and operate properties in a variety of locations. Four Seasons and Shangri-La operate very high quality properties but only in a few select Canadian cities. Fairmont and Marriott, on the other hand, operate in almost every province across the country and are therefore highly visible to the Canadian consumer. Finally, Sutton is a much smaller operation, holding only three Canadian properties and one in the United States. Despite these differences in size and scope, each of these companies successfully competes for the luxury segment in their respective locations.

Each of these brands offers similar amenities to guests and attempt to create differentiation through different marketing campaigns, innovative guest services and strong customer service. These parallel strategies highlight an opportunity for new entrants to create a differentiated strategy based on a new set of criteria. It is suggested that while maintaining the amenities that are standard to luxury properties, brand differentiation could be created through the establishment of a boutique-style chain targeted at the green tourist. Given that the green consumer segment is small but growing (Swarbrooke & Horner, 2007) it will be essential for any green boutique chain to continue to appeal to the larger luxury segment. The consumer decision process will be discussed in the next section in order to determine how a new boutique chain may best fit consumer preferences.

3: Consumer Behaviour in the Hospitality Industry

By first developing an understanding behind consumer behaviour in the hospitality industry, it is possible to determine how consumers take company environmental policies and practices into consideration when choosing a hotel. This next section will discuss the decisions patterns of consumers and the criteria used in the hotel selection process.

Consumer Decision Patterns

Due to its unpredictable nature, analyzing consumer decision and choice making in the hospitality industry is complex. Patrons of any one hotel may differ greatly; they may or may not have children, they may be retired or be young professionals or perhaps, they may be looking for a relaxing holiday or in contrast, an adventurous weekend escape. According to Williams (2002), when trying to determine the ideal hotel choice, consumers of hospitality goods and services will make four types of decisions; financial allocations, outlet patronage, product purchase and brand choice. Each of these factors affects the decision process and exists in varying degrees, contributing to the difficulties in predictability.

One common theme between many consumer decision models is the idea that consumers of services have a difficult time assigning an appropriate value to the product purchased. It is much easier for a consumer to determine the value of a good with which they are more familiar – a meal at a restaurant, for example, is much easier to quantify than a one-night hotel stay. Consumers require comparable traits to be confident that they are receiving good value for the purchase price.

Additionally, the frequency of decision-making will often alter the outcome of the final choice (Wilkie, 1994). When a consumer must make a decision with which they have little familiarity, they must develop criteria and complete extensive research, increasing the length of time to make a decision. This type of infrequent decision-making is known as *Extensive Problem Solving.* When consumers have more familiarity and experience with the service, they are able to make decisions more quickly. *Limited Problem Solving* occurs when consumers hold some information but are unfamiliar with the specific brands, styles and options, such as the selection of a restaurant in a new city. This is the most common type of problem solving. Finally, *Routine Problem Solving* occurs when consumer are highly aware of the options and have developed clear likes and dislikes and therefore only need to perform a limited amount of research and are able to make quick decisions. Deciding which pub to head out for an evening drink would represent one of these routine decisions. With respect to hotels, consumers who travel often to the same destination will be able to make a decision more quickly than those who travel less frequently or to a new destination. The decision process with respect to the hospitality industry will be discussed below.

Williams' Model for The Consumer Decision Process in Hospitality

Decision-making in the purchase of hospitality services has a number of unique aspects that must be taken into consideration. Given that hotel stays are consumable services without a tangible product, the decision made is a carefully weighed selection from several options. Hoteliers often speak of selling an experience, rather than a service.

This experience and the associated memories are the company's products and as mentioned earlier, it is difficult for consumers to assign a value to this service. The Consumer Decision Process for Hospitality Services (Williams, 2002) will be discussed within the context of the luxury hotel segment (Figure 5).

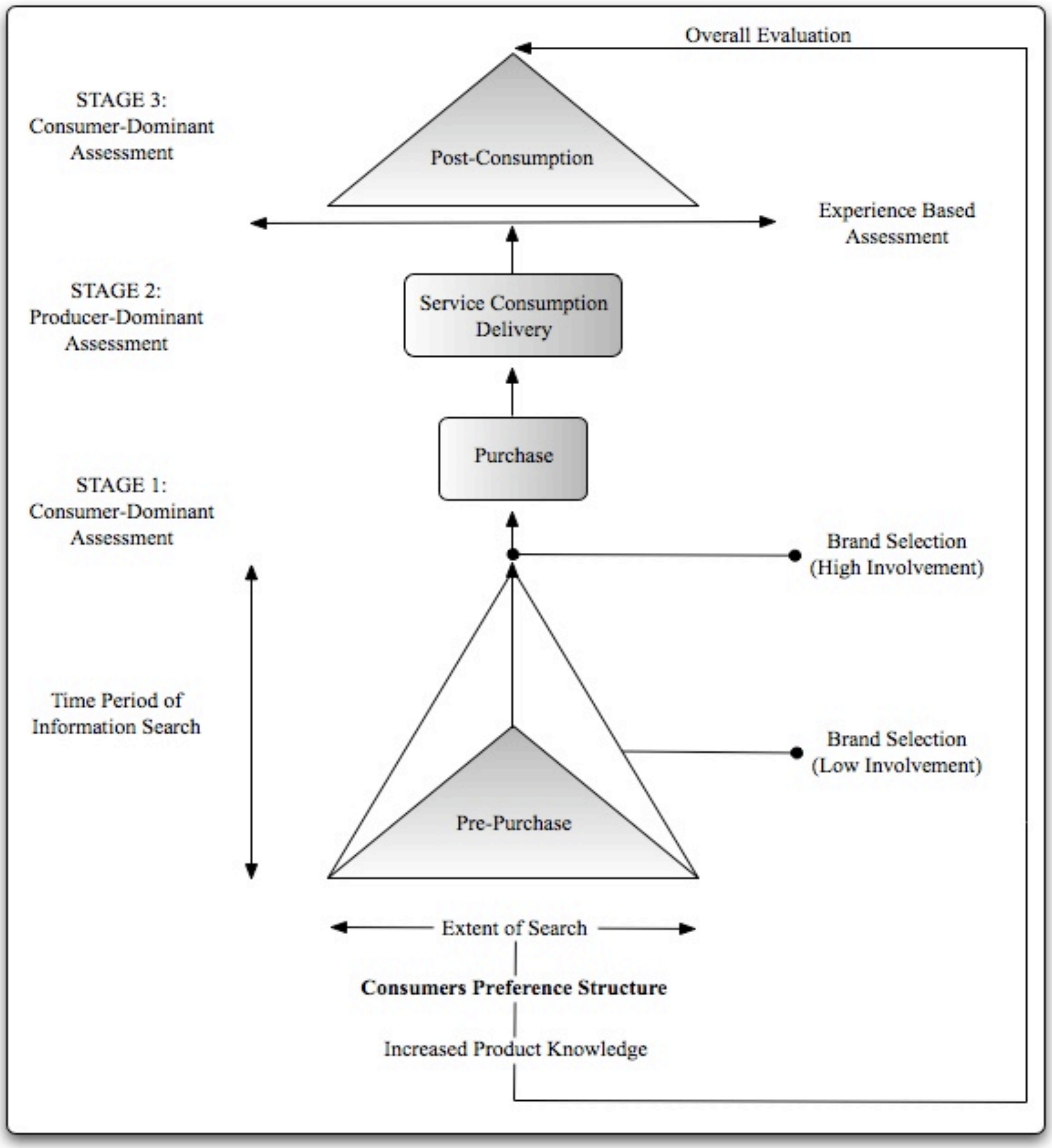

Figure 5: The Consumer Decision Process for Hospitality Services (Adapted from Williams, 2002)

Williams' model (Figure 5) outlines a linear process, stating that there are three different stages during the purchase of a service or good, Pre-Purchase, Purchase and Post-Consumption.

Stage 1 – Pre-Purchase

In the pre-purchase stage, consumers will weigh their options and spend a varying amount of time making a decision given the relative importance of the outcome. In order for the decision process to begin, the consumer must realize that there is a problem and become motivated to research the alternatives. According to Williams, this problem recognition can occur through the following methods:

a. New need circumstances
b. New want circumstances
c. New products
d. Purchases of other products
e. Marketing inputs

Marketers work to increase the amount of favourable information about a product and ensure that the consumer has access to this new information. In contrast, consumers seek information to reduce risk in the decision making process, hoping to increase confidence in their final choice. Additional information is also used as a defence mechanism in justifying a decision that has already been made. Given that the best decision was made with the available information, consumers seek to reduce risk and the potential guilt associated with a poor outcome.

Research has suggested that the amount of information available increases consumer confidence, though they will only take into consideration a small portion of this information (Jacoby et al., 1974). Regardless of the information available, consumers will often make 'irrational' decision based on brand or image alone, reducing the effect of marketing campaigns. Therefore, the assumption that additional consumer information will result in clear and rational decisions is false.

	High-Involvement Purchase Decision	**Low-Involvement Purchase Decision**
Decision-Making (extensive info search)	COMPLEX DECISION (holidays, restaurants, theme parks)	LIMITED DECISION (beer brands, bowling alley cinema)
Habit (limited info search)	BRAND LOYALTY (hotel chain, pub brand, fast-food outlet)	INERTIA (snacks in bar, milk at the corner store)

Figure 6: Purchase Decision Matrix (Adapted from Williams, 2002)

Figure 6 highlights the contrast between high and low involvement circumstances and actual decision-making versus habitual choices. Complex decisions are made when the perceived importance of the decision is high to the consumer. When consumers develop high levels of brand loyalty, these decisions can be made more quickly and without as much time invested in product research and comparison. Overall, low involvement purchases involve mostly passive information processing whereas purchases with high personal involvement, such are those involving status and value, warrant far greater levels of information processing (Williams, 2002).

Hotel selection is a high-involvement decision that may be either made based on habit or extensive research. Frequent business travellers will often reduce their decision time and select a hotel based on brand loyalty or perhaps company preference or policy. Vacationers, on the other hand, will spend more time researching their choice. In both cases, a hotel's environmental policy is becoming an important decision factor. According to a recent poll, 10% of travellers stated that they would not stay in a hotel without an environmental policy (Brandweek, 2009), indicating that this factor is part of the decision process.

Stage 2 – Purchase

How an individual frames a problem determines how they make a decision. Is it seen in a positive or negative light? The use of heuristics in this stage helps consumer to make their final decision. During this stage, the actual decision to purchase or not to purchase is made. This choice is not always under the control of the individual.

For example, following research and information gathering, a consumer may decided on a specific hotel, only to find out that in the meantime all the rooms have been booked. In this case, the decision process will begin again and the consumer will try to find a comparable substitute. In other words, by the time all the options of a specific hotel have been evaluated, the decision power may be gone because rooms are no longer available. In addition to availability, consumer may also have other constraints such as necessity, time, location and cost that may affect their ability to make an agreeable decision.

Stage 3 – Post-Purchase

Finally, in the post-purchase state, consumers will often revisit the information they researched to affirm that they made the correct decision. When expectations are met, the level of satisfaction with the service increases. This tendency to research a product or service after it has been purchased highlights a consumer's need to reduce doubt through confirming the benefits of the decision reached (Williams, 2002). Businesses and marketers will often put in place strategies to reduce the perceived risk of the purchase for the consumer. To reduce this cognitive dissonance, hoteliers will often phone the room following arrival to ensure that the consumer has everything they require. By making consumers feel comfortable, hotels can help to confirm that guests have made a good decision.

Given that hotel stays are often a high-risk, high-involvement product, such efforts are key for consumer satisfaction. Following the consumption of a good or service, consumers will evaluate their experience based on their previous expectations. This comparison between expectations and the actual experience will be used in the confirmation or disconfirmation of the original decision, and potentially the creation of brand loyalty. When hoping to build brand loyalty around an environmentally differentiated strategy, hotels must confirm the original decision of the consumer by meeting expectations. For example, any wasteful practices on the part of the hotel would reduce the credibility of these claims in the eye of the consumer, resulting in low customer satisfaction and post-purchase disappointment.

To summarize, in order for a customer to make a purchase decision they must first be aware of a problem and become motivated to research the alternatives. Decisions can vary from low involvement to high involvement, depending on the potential consequences of the outcome. For example, the luxury hotel segment represents a high involvement decision that presents a key opportunity to develop brand loyalty through the confirmation of client expectations.

Consumer Decisions and Hotel Choice

With specific regard for hotel selection, consumers take a number of characteristics into consideration and consult a wide variety of information. Increasing access to information through online travel directories, personal recommendations, company websites and various media outlets, means that today's consumers are more informed than ever.

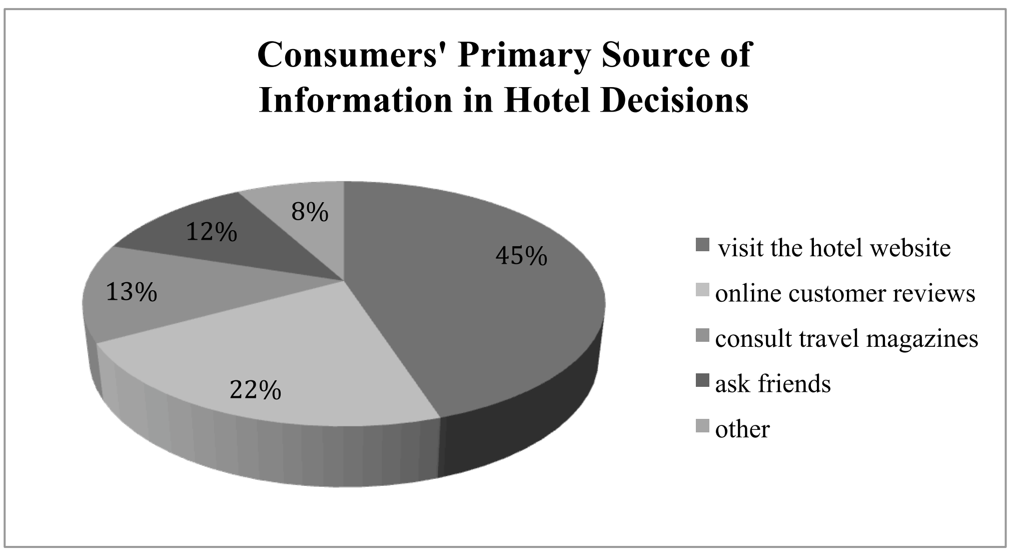

Figure 7: Synovate Poll of Hotel Decision Criteria (Adapted from Brandweek, 2009)

In a global poll of ten countries conducted by Synovate in April 2009, it was found that the main source of information was a hotel's website, with 45% stating that it was their information source of choice (Figure 7). A further 22% of respondents consulted online travel review sites; such as TripAdvisor.com, while 13% consulted travel magazines and 12% spoke with friends and relatives. This variance poses a challenge, as hotels must invest in various types of advertising and marketing in order to reach a broad range of potential customers.

Additionally, the same survey found that the amount of research gathered by consumers varies significantly (Brandweek, 2009). According to the poll of consumers, 10% of respondents stated that they "select the first OK hotel that I find", while 21 % "research every hotel in the area so I know I am choosing the best one for me." In the middle, 67% of respondents stated that they would "find out about a few comparable hotels and choose the one that will be suit me." This survey demonstrates the different decision processes and needs of travellers, highlighting difficulties with consumer decision predictability.

Location as Decision Criterion

The location of a property must be well matched to the consumer segment it is targeting. Hotels looking to cater to the outdoor adventurer are located in remote, wilderness locations while those catering to a business traveller are in the city centre or near to airports. However, the specific location within these areas can also be an important factor in the consumer decision. There may be numerous hotels in a downtown core, but some will always be located in better proximity to certain attractions or facilities. In terms of hotel location, families will often look for easy accessibility to several tourist destinations while business travellers will look for the ideal combination of proximity to place of work and access to transportation hubs. According to one survey in the June 2008 edition of Travel Weekly, over two-thirds of respondents reported that hotel location was the most important factor in hotel selection. The specific location of a hotel within a region is an important driver in consumer selection and a key factor to a property's success.

Amenities as Decision Criterion

Hotels offer a variety of services, amenities and extras in an effort to attract customers and create brand loyalty. Upscale properties focus on interior decoration, brand name toiletries, luxurious linens and technological capabilities. Victorino et al. (2005) found that innovative hotel services and amenities are important drivers in consumer choice. Specifically, in the luxury market, both business and leisure travellers placed the most importance on in-room Internet access. Furthermore, according to the Synovate poll, 47% of respondents stated that they research the hotel's technological capabilities before booking. High-speed Internet access (HSIA) can be an important way to differentiate a hotel, and though it is quickly becoming the norm throughout the luxury segment, it is still an important factor in more rural locations (Jesitus, 2004). In 2003, a Holiday Inn property was the first in its market to install HSIA and was able to capture a five-day full service business contract from its competitor. According to a client survey, this was almost entirely due to the availability of HSIA, demonstrating the advantage of short-term differentiation strategies.

Other consumer segments will research what type of spa services and in-room toiletries are provided. In fact, before making a selection, 33% of customers look for lavish toiletries (Brandweek, 2009). It is unlikely that any one specific amenity will be the sole decision criteria. However, it is essential that hoteliers find the ideal combination of services for their prime consumer segment, maximizing hotel appeal without spending funds on unwanted extras.

Price as Decision Criterion

The cost of a hotel room is another significant driver in consumer decisions and was cited as the second most important criteria in the 2008 Travel Weekly survey discussed earlier. Hotel room price can convey three different pieces of information to the consumer: hotel quality, reference price and price-value (Lewis and Shoemaker, 1997).

Price can have a significant contribution to a consumers' formation of quality perception, highlighting the importance of careful pricing of hotel rooms. The reference price refers to the amount that a consumer believes that they should pay for a good or service. It is often more difficult for a consumer to assess their reference price for a service over a good (Lewis and Shoemaker, 1997).

The consumers' perception of price-value also has a significant affect on the decision process. Price-value can be defined as the value of a product that goes beyond its monetary worth (Lewis and Shoemaker, 1997). The value of a product that is promised by the company's value proposition and how the customer perceives it is an increasingly important driver in purchase decisions. It has been found that it is better for hotels to offer extra benefits, such as free breakfast or parking as an incentive to increase occupancy rates, rather than reducing room rates (PFK Canada Consulting, 2009). This is an important consideration when trying to maintain consumers' quality perception of a property. This is especially notable in the luxury hotel segment, given that these consumers are the least price sensitive.

Brand Loyalty as Decision Criterion

The lodging industry has long made use of customer loyalty programs in an effort to create differentiation between brands. Loyalty programs also serve to increase the perceived switching costs between brands, which are otherwise relatively low. These programs help companies to collect information regarding customer habits and preferences, both of which are important tools for strong relationship marketing. During the recent economic downturn that began in mid-2008, a number of hotels have modified their programs in an effort to attract customers. For example, Hilton, Marriott and Starwood each removed their blackout dates for reward redemption. Loyalty programs continue to be a significant factor in the decision process with 37% of guests stating that loyalty program membership was key in their decision to book (Barsky, 2008). Furthermore, some of the smaller luxury chains have even higher program effectiveness, with the Pan Pacific Privileges program reporting 71% (Barsky, 2008).

Through a better understanding of the consumer decision process, hoteliers are able to maximize their efforts through targeted improvements in services that are most important to property selection. Meeting consumer expectations, developing brand loyalty, innovative services, location and strong price-value perception all combine to attract consumers and increase occupancy rates.

4: Consumer Attitudes Towards Green Services

While it is encouraging to see one in ten guests actively search for green policies within the hotel context (Brandweek, 2009), it remains difficult to predict green consumer behaviour. Consumer intention to purchase green services and their actual activity often differ (Han et al., 2009). By assessing consumer attitudes towards green services it will be possible to determine to what level this factor will enter the consumer decision process in hotel selection.

Predicting Environmentally Motivated Behaviour

The green segment is a notoriously a difficult group to access. Various studies have tried to determine the demographic characteristics of the 'typical' green consumer but there is little agreement between researchers. A number of academic studies have been conducted to determine the existence of a green consumer that makes purchases based on the environmental impact associated with the service or good. In trying to segment the green consumer, these studies have looked at the demographic and psychographic characteristics as well as past behaviours of individuals. Criteria such as age, gender, income level and education are often used to define the typical green consumer. However, as Finisterra do Paco (2009) suggests, there are a number of studies around each of these criteria that do not confirm a consistent correlation between these variables. In terms of income, it is generally accepted that a higher level of income allows consumers to more easily assume the marginal increases in cost of environmentally responsible goods (Finisterra do Paco, 2009). Studies conducted by Berkowitz and

Lutterman (1968) and Henion (1972) conclude that individuals with middle and higher income and a higher level of education are more likely to demonstrate environmentally motivated behaviour. However, these results were not consistent throughout each of the income brackets. Conversely, in a study conducted by Samdahl and Robertson (1989), the opposite was true – environmentally aware consumers had a lower income and education level when compared to the American average. As such, they concluded that income and education were not very reliable indicators of environmental behaviour.

In terms of psychographic criteria, Cornwell and Schwepker (1991) conclude that involvement in environmental groups and community organizations is one reliable indicator of environmental purchasing behaviour. There are also some indicators that a person's values can be used to determine their environmental behaviour. Homer and Kahle (1988) found that individuals who are more internally motivated (through self-realization, happiness and fun, a sense of completeness and self-respect) take environmental factors into consideration more often than those who are guided by external values (sense of belonging, being respected and safety).

Environmental concern has also been used as an indicator of green purchasing behaviour. In several studies (Kalafatis et al., 1999; Roberts, 1991; Shabecoff, 1993) it was found that consumers who frequently engage in environmentally friendly activities (EFAs) are more likely engaged in eco-friendly purchasing behaviours. However, in a 2009 study by Han et al., it was found that EFAs were not a strong indicator of an individual's likelihood of booking a green hotel. The study used the Theory of Planned Behaviour to compare individuals who regularly practiced EFAs and those that did not. It was concluded that the influence of one's important others, the positive association of the activity and individual attitude are the strongest indicators of green behaviour in the hotel industry, though these factors showed no difference between EFA and non-EFA individuals. Schlegelmilch (1996) also found that individual attitudes are the most consistent predictor of pro-environmental purchasing behaviour.

Segment Name	***Percent of the Market***	***Segment Description***
LOHAS	15%	Lifestyle of Heath and Sustainability (LOHAS) consumers are dedicated to personal and planetary health. Not only do they make environmentally friendly purchases, they also take action – they buy green products, support advocacy programs and are active stewards of the environment.
Naturalites	17%	Focused on natural/organic consumer packaged goods with a strong health focus when it comes to foods/beverages. They are not politically committed to the environmental movement nor are they driven to eco-friendly durable goods.
Drifters	24%	This segment has good intentions, but when it comes to behaviour, other factors influence their decision more than the environment. Somewhat price sensitive (and trendy), they are full of reasons why they do not make environmentally friendly choices.
Conventional	26%	This very practical segment does not have green attitudes but do have some “municipal" environmental behaviours such as recycling, energy conservation, and other more mainstream behaviours.
Unconcerned	16%	The environment and society are not priorities to this segment. They are not concerned and show no environmentally responsible behaviour.

Table 4: Lifestyle of Health and Sustainability LOHAS Consumer Segments (Adapted from The Natural Marketing Institute, 2008)

A number of research groups have developed consumer segments to help marketers who are trying to target the ‘typical’ eco-consumer. First in 1997, and updated in 2008, the Natural Marketing Institute created the Lifestyle of Health and Sustainability (LOHAS) Segmentation Index placing consumers in five segments based on attitudes toward health, wellness and sustainability. Table 4 outlines the characteristics of these five segments. The LOHAS segment, representing 15% of the population highlights the group of customers who consider the environmental impact of their purchases and are active stewards of the environment. However, as put forward by Han et al. (2009), these factors alone do not impact the selection of a green hotel. Though it is likely that the majority of consumers who select a hotel based on its environmental policy are included in this segment, it is unreasonable to assume that the entire 15% would only stay in environmentally friendly lodging. As such, the LOHAS segmentation is a useful tool in understanding the green consumer, but it must be considered that there is great variation between customers in terms of demographics, income and ability to travel.

In 2008, GFK America released a similar study: the Green Gauge Report, highlighting global and American attitudes towards environmental responsibility. The Green Gauge report segments the population into six different consumer groups based on environmental attitudes and practices (Table 5). Given the academic research noted above which highlights some of the contradictions in the identification of a green consumer, it is important to realize that both of these segmentation methods remain an approximation of the market, highlighting a need for further research.

Segment Name	***Percent of the Market***	***Segment Description***
Genuine Greens	17%	These are the environmental activists. They are the most likely to think and behave green and do not feel there are any barriers to action.
Not Me Greens	21%	This segment has strong attitudes, however, this thinking has yet to turn into action except for certain easier behaviours like recycling. There is a sense among this group that the issue is too large for them to handle.
Go-With-The-Flow Greens	16%	This group can be considered moderate in terms of their environmental behaviours and attitudes. They are more likely to take easy actions such as recycling. They also may be less

		concerned about environmental problems such as global warming.
Dream Greens	13%	While they tend to have limited green behaviour, their environmentally friendly attitudes are stronger than the general population. The biggest barrier to this group behaving more green is lack of information.
Business First Greens	21%	Generally less concerned about environmental issues and problems, their green behaviours are less than those of the total population. This group is also less likely to believe that industry needs to take steps to improve the environment.
Mean Greens	11%	These individuals are cynical and apprehensive about environmentalism. They are more likely to think that the environmental movement is a front for political interest groups.

Table 5: 2008 Green Gauge Report for Consumer Segments (Adapted from: GFK America, 2009)

Consumer Attitude Implications

As discussed above, the green consumer is difficult to identify and though individuals may have pro-environmental attitudes, this does not always translate into environmentally motivated purchasing behaviour. However, this does not imply that there is no market for a green hotel chain, but rather that the clear identification of the ideal consumer is somewhat challenging. As highlighted in the next chapter, the financial benefits of adopting green policies are significant and as such, the price-premium sometimes added to green products and services is now less of a concern. The differentiated strategy of a green hotel offering the same amenities as other luxury hotels at an equal or reduced price would appeal to both the luxury and eco-luxury segments.

5: The Business Case for Sustainability in the Hotel Industry

The Economic Benefits of Going Green

With an increase in green programs being integrated into hotel operations, the businesses that embrace these practices will realize first-mover benefits. Previously, owner/operators have been concerned by the impact of environmental initiatives on the perceived quality and service of the business from the customers' perspective (Brown, 1996). However, the financial benefits of greening operations and changing consumer attitudes are eliminating this concern.

Currently, there are a number of incentive programs available for Canadian business owners including Natural Resources Canada's ecoEnergy Retrofit Incentive for Industry. Under this program, businesses can apply for $50,000 CDN in funds to offset the cost of energy system upgrades (Natural Resources Canada, 2009). There are also numerous municipal and provincial programs across Canada offering property tax reductions and retrofit subsidies (PWC Canada, 2009). According to Butler (2008), hotels that are early adopters will have the best chance to benefit from these green incentives offered by various government programs. In contrast, as these building and property upgrades become the norm, government incentives may be eliminated thereby removing any competitive advantage.

Leadership in Energy and Environmental Design (LEED)

Launched in 1998 by the United States Green Building Council (USGBC), the Leadership in Energy and Environmental Design (LEED) Green Building Rating System is the most recognized standard in environmentally sound building design. LEED certification is granted to buildings that meet defined standards in terms of site location, energy efficiency, water use, materials, resources and indoor environmental quality. LEED awards four standards: certified, silver, gold and platinum. The Canadian Green Building Council (CaGBC) became incorporated in 2002, and adopted the LEED Green Building Standard from the USGBC in 2005.

Property	***City***	***Province***	***Status***
Hôtel M	Saint-Hyacinthe	QC	Registered
Spa de l'hôtel Sacacomie	St-Alexis-des-Monts	QC	Registered
Hilton Garden Inn Hotel	Mississauga	ON	Registered
New Element and aLoft Hotel	Toronto	ON	Registered
Bridgegate on Crowsnest Lake	Crowsnest Pass	AB	Registered
Gatine-sur-l'eau	Lac Ste-Marie	QC	Registered
E'Terra Inn	Tobermory	ON	Certified
Vancouver Convention Centre Expansion Project	Vancouver	BC	Registered

Table 6: Canadian LEED Registered and Certified Hotels (Adapted from CaGBC, 2009)

Currently, there are seven hotel properties registered to undergo LEED certification across Canada, with only one property currently certified (Table 6). According to the Hotel Association of Canada, there are a total of 6,581 hotel properties across Canada (Hotel Association of Canada, 2009). Comparatively, of the 47.000 lodging properties throughout the United States, only 11 were certified as of June 2008 (Yoshino, 2008). Though there are few Canadian hotel properties currently certified under the LEED program, hotels often pursue focused upgrades to their electrical and water systems to create financial savings along a similar standard.

In the industry, a common misconception is that building to LEED standard is expensive and that the return on investment will not be realized in a reasonable amount of time. In fact, the costs of implementing LEED standards have been declining and are often between 0% and 2% (Butler, 2008; Lucuik et al., 2005). Furthermore, return on investment is often realized within 18 months due to significant savings in operating costs (Lucuik et al., 2005). Specifically, the USGBC projects that the following savings should be expected for buildings implementing LEED standards:

- 30 to 50 percent in energy use
- 40 percent in water use
- 70 percent in solid waste expenses

These savings are for a building meeting the Platinum LEED standard and provided by the USGBC, an organization that as a vested interest in promoting the widespread adoption of green building practices. However, the potential for cost-savings is hard for business to ignore.

Increasing Water-Use Efficiency

Reducing water use is one of the first policies hotels implement. This can be achieved through towel and sheet reuse programs or by installing bathroom fixtures that reduce the flow of water. For example, by replacing traditional showerheads that use 9.46 litres per minute (LPM) with 6.06 LMP models, hotels can reduce water use per room by 36% (Michaels, 2008). With guestrooms accounting for 33% of water use (Meade, 1999), and the average cost of water at $0.86 per 1000 litres, a 200-room hotel with a 65% occupancy rate stands to save $11,120 per year. Water savings can also be realized through the reduction of laundry as well as modified ground and garden maintenance through the use of local species that do not require intensive watering. These efficiencies will result in a decrease in the both utilities expense and the room expense on the income statement.

Reducing Energy Use

Perhaps the most lucrative and easiest efficiency to attain, most hotels have policies in place which minimize energy use. This is often achieved through upgrading existing hardware to more eco-efficient versions. For example, when the Fairmont Winnipeg upgraded its lighting system to energy efficient options, the annual cost savings were $44,000, saving 882,000 kWh of electricity, which is enough to the power 327 residential homes (Fairmont, 2009).

Energy Management Systems

Hotels in locations with a varied climate significantly benefit from room-specific energy management systems (EMS) that allow the hotel to carefully monitor the temperature (and thus, energy use) on a per room basis, turning down the thermostat when the room is unoccupied. Savings can range anywhere from 15% for a limited service hotel to 70% for a larger, full-service property (Whitford, 1998).

There are often delays in the implementation of environmental management systems due to a lack of knowledge and resources. Costs include the purchase of monitoring and measuring equipment, hiring an environmental specialist or consultant, initial staff training, computer software and the associated financing of maintenance and improvements to the EMS required to maintain optimum environmental performance. It is difficult for hotels to mobilize the resources necessary to establish EMS, however, Chan and Ho (2006) suggest several creative ways to finance their installation. Hotels may choose to partner with a local educational institution to make use of academic resources and insight, often at a much lower rate than traditional consultants. This can result in the generation of knowledge, which can then be shared throughout the industry, helping to improve efficiency in a much wider area. The authors also suggest something called energy performance contracting (EPC) in which there is an arrangement where contractors will assume some responsibility for the purchasing, installation and maintenance of EMS. The contractor will only receive payment once the installed equipment reduces company expenses. This system has two benefits; it allows for speedy installation and it creates a risk-sharing relationship between the contractor and the hotel property. Chan and Ho summarize by saying that hotels should start with easy-to-achieve and low cost environmental projects while moderate and high investment projects should be scheduled later when hoteliers and employees have developed confidence and realized the benefits from earlier environmental actions.

Waste Management

There are two main areas of waste management that hotels must take into consideration: waste reduction and waste disposal. It is much more cost-effective to reduce the amount of waste being produced from the onset of operations than it is to deal with the costs of removal. Efforts should be made to source products and inputs with minimal packaging, which is an effective way to reduce the cost of waste pickup and disposal. After waste has been reduced, hotels should focus on reusing and recycling waste items, as outlined in the waste reduction pyramid shown in Figure 8:

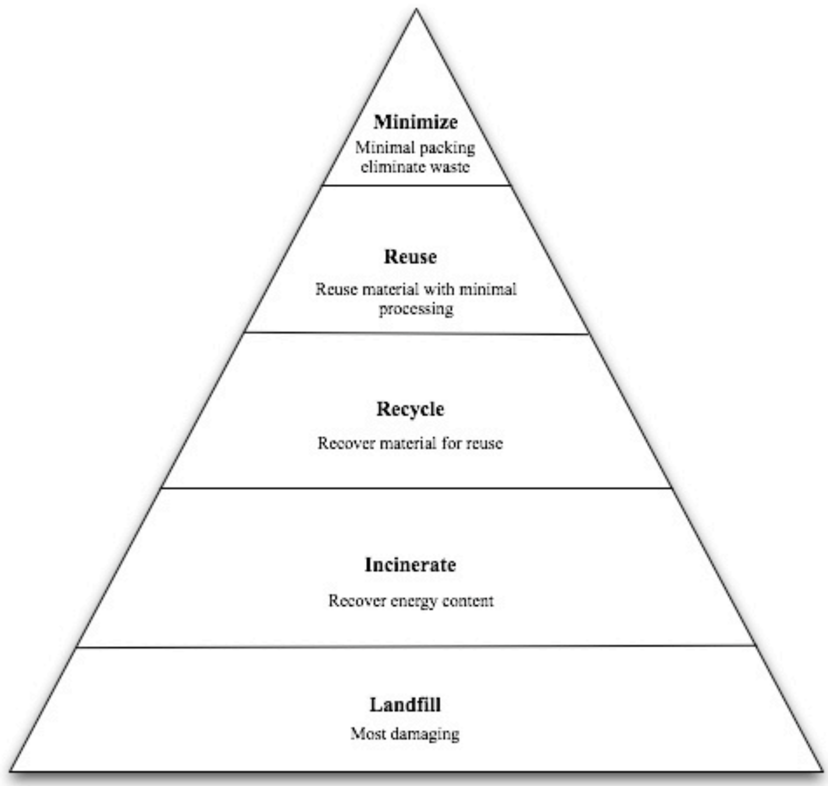

Figure 8: Waste Reduction Pyramid

Depending on hotel location, garbage removal or incineration can be a significant portion of operating costs. For example, in a case study of a 415-room luxury hotel in the United States, the monthly waste service bill was $1,420 per month (Solana Recyclers, 1999).

The Impact on the Financial Statement

Eco-efficiency initiatives have a positive impact on a hotel's bottom line. There are three items from the income statement, which are clearly impacted by these changes.

First, the room expense item that includes the costs of room upkeep, room supplies, employee wages and public space maintenance. Room expense can be reduced through laundry reduction programs, for example. The utilities expense can also be reduced through energy, water and waste reduction as highlighted above. Finally, each hotel has a reserve for replacement fund used to cover capitalized expenses such as furniture, fixtures and equipment. Currently, the industry average for reserve for replacement is between three and five percent of total revenue (Heebner, 2008). These funds are already dedicated to the maintenance of the building and thus can easily be allocated towards efficiency programs, generating further savings. (Please see Appendix B for a summary of cash flow effects resulting from the implementation of eco-efficiency projects.)

6: Opportunities for Green Hotels In Canada

Analysis of Fairmont Hotels

Fairmont Resorts and Hotels have successfully created a strong brand in the luxury hotel segment, focusing on the consumer experience and "turning moments into memories." The company's focus on corporate social responsibility and environmental stewardship are important backbones of the brand. Fairmont's successful implementation of an environmentally aware strategy provides a good point of comparison for other firms looking to employ similar environmentally motivated strategies. Using the sustainability phase model from Dunphy et al. (2007) this next section will analyse the implementation of corporate sustainability at Fairmont Resorts and Hotels.

Sustainability Phase Model

Fairmont underwent a significant transformational change in the 1980s with the pro-active implementation of environmental initiatives. During this period, consumer awareness of environmental change was increasing, highlighted by the banning of PCBs in 1977. A number of companies began to promote various green programs, but largely in response to increasing consumer awareness. As enthusiasm for the environment subsided, so did many green policies. Fairmont, on the other hand, continued to develop its programs making sustainability a key component of its operations. This long-term commitment, evidenced by continuous improvement from within the company has allowed Fairmont to avoid a reputational mismatch, a common problem for companies undergoing transformational change in the area of corporate responsibility.

By spotting an emerging trend from the outset, Fairmont is now well positioned as the industry leader for green initiatives. Figure 9 outlines Fairmont's change throughout the company's life. In the 1980s, Fairmont began its environmental program that initially focused on developing eco-efficiencies throughout each of its properties. This took the form of various energy and waste saving programs, aimed at cutting operational costs. As Fairmont developed an increasing level of expertise in this area, the company began to take on a leadership role within the industry. This was demonstrated by strategic partnerships with the David Suzuki Foundation, The World Heritage Alliance for Sustainable Tourism and National Geographic.

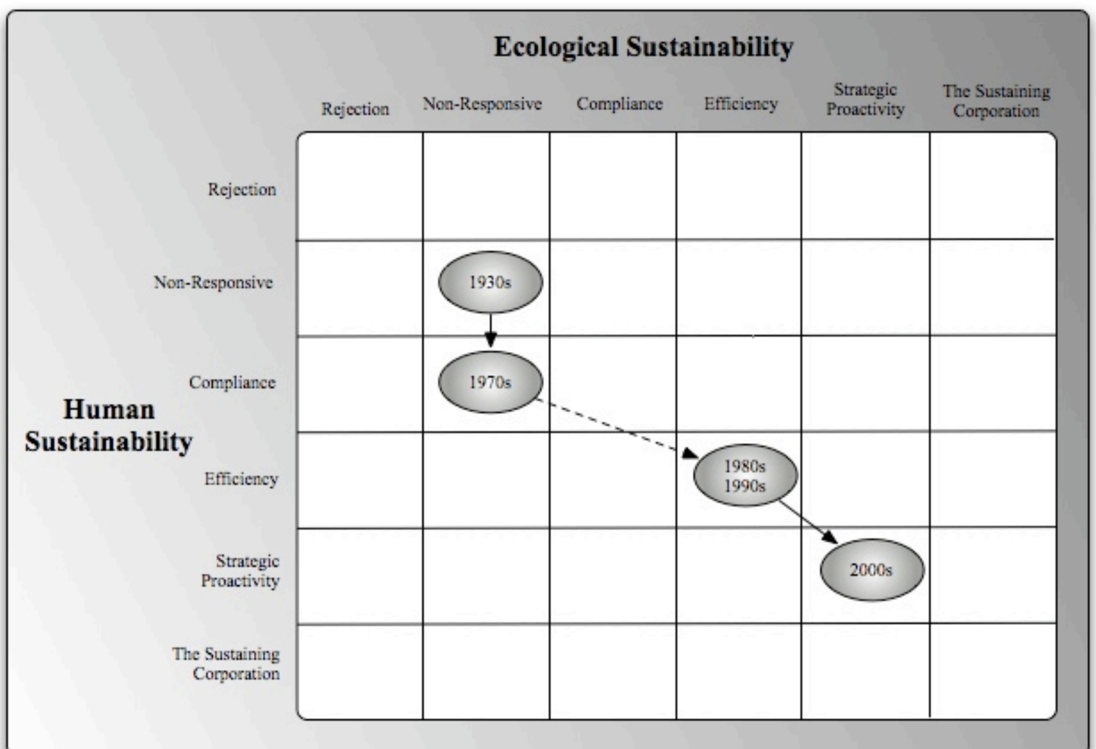

Figure 9: Sustainability Phase Model (Adapted from Dunphy, Griffiths and Benn, 2007)

Another important aspect of Fairmont's success is the involvement of employees. The creation of hotel-based Green Teams have helped to create a strong understanding of the corporate values, encouraging front-line employees to be ambassadors of green programs. This ownership of the issues, so to speak, serves to increase employee satisfaction and thus, retention. The creation of a corporate environmental affairs division at the head office that is championed by top-level executives further helps to solidify environmental values throughout the company.

Every several years, Fairmont publishes the Green Partnership Guide, a report summarizing best practices, case studies and tools for organizational change in the area of sustainability. The third edition of the guide was published in 2007 and is available to all hotels throughout the industry. By becoming a corporate leader, Fairmont has been able to benefit strategically through their ability to set benchmarks for the industry while staying ahead of its competition.

In addition to numerous eco-efficiency programs, Fairmont has implemented a number of other strategies aimed at creating value for their guests. Currently, guests are offered free parking for hybrid vehicles and are encouraged to take advantage of over 15 different eco-stay packages, each specifically tailored to the property location. For example, guests staying at the Fairmont Empress in Victoria can participate in the Go Green Stay Green Package that includes a whale watching tour, in-room local organic wine and cheese and a $25.00 donation to the Vancouver Island Marmot Recovery Centre (Fairmont, 2009b).

Out of context, these eco-incentives and various eco-packages may have the appearance of savvy marketing. However, given Fairmont’s record of environmental stewardship the consumer is less likely to be sceptical of the underlying motivation. This is one of the largest risks facing a firm that is looking to move into the green consumer market. According to Michelle White, the Director of Environmental Affairs for Fairmont, the company receives “positive feedback not only from our guests, but also from our owners, who recognize that being good environmental stewards is actually good for business (Morgan, 2007).” Through quantifying and sharing the results of their efforts, Fairmont has successfully been able to create and maintain reputational capital in this competitive industry.

Considerations in Adopting a Green Brand

Fairmont provides a clear example an environmentally differentiated strategy that was thoughtfully and successfully implemented. The industry-wide recognition of cost-savings associated with eco-efficiency programs has meant that the majority of hotels are implementing such initiatives. However, without careful consideration and planning, there can be significant consequences to an instantaneous greening of a brand. Before a hotel labels itself green, a number of considerations must be taken into account. These will be discussed below.

Greenwashing

As companies begin realize the efficiencies and savings that can result from green initiatives, an increasing number are working towards improving environmental standards. However, some companies are greenwashing their corporate image in place of making quantifiable environmental improvements. Greenwashing occurs when a company makes misleading claims that create a positive association between a company’s products and the environment, when no such benefit exists. With increasing public awareness surrounding environmental issues, consumers are demanding improved corporate sustainability.

With claims of greenwashing on the rise, Canadian consumers are becoming increasingly critical of environmental claims made by companies. According to a 2007 Ipsos Reid poll, 64% of Canadians are skeptical of all environmental advertising they see. Only 4% of Canadians believe that the majority of green claims made by companies are true (Ipsos Reid, 2008). Further, 95% of Canadians agree (54% completely, 41% somewhat) that they would like to see more universal standards proving the environmental claims made by products (Ipsos Reid, 2008). 38% of Canadians would like to see products meet third-party standards, with a clear description on the label. In April 2009, Trip Advisor, a consumer driven travel review website, surveyed 1200 American consumers to find that 72% believe that hotels are more interested in marketing themselves as green than actually committing to reduce their impact on the environment (Hasek, 2009). In contrast, 27% of respondents stated that they are willing to spend $50.00 or more to be environmentally friendly when travelling, further evidence of a growing green segment.

Consumers are highly skeptical of a company's claim of being green while at the same time, companies are looking for ways to distinguish themselves from their competition and are increasingly adopting green initiatives. If a company prematurely launches a green marketing campaign, it can have a negative impact on brand image. Managers must consider that once a company announces various environmental programs, they will inadvertently highlight what they are not doing. For example, if a hotel implements a towel reduction campaign without any further commitment, guests may become skeptical of the policy, concluding that it is money saving for the hotel, rather than 'green' as the hotel claims. Guests report that they are happy to be involved in the environmental process but that they would still like to be the ones who choose to reuse the towels or not (Goldstein, 2007). In this case, towel re-use programs are most effective when paired with other environmental initiatives, helping to increase consumer trust and participation.

It is important for hotels to conduct audits that can be used to create a baseline for comparison. This helps to build credibility with the guest as it provides a method to quantify the changes in the property and its management. Furthermore, it is advisable to compare outputs to hotels of a similar size and location. This can be a strong tool of persuasion which helps to further differentiate one property from another. Overall, avoiding accusations of greenwashing is best accomplished through the reporting of quantifiable hotel improvement programs, reducing the potential for reputational damage.

Employee Involvement

The successful implementation of any environmentally based strategy requires that employees in all departments and at all levels understand the underlying reasons behind company policy. Any discrepancy between employee actions and company image may result in criticism, destroying reputational capital. A failure to properly understand a company procedure may occur for a number of reasons, most often a failure to clearly communicate the benefit of the policy.

For example, as discussed earlier many hotels currently offer voluntary towel re-use programs. Guests are often instructed to leave the towel on the rack if they desire to re-use the towel the following day. However, some guests notice that despite following the instructions they are still supplied with fresh linens. It may be the case that the guest was not explicit in their desire and placed the towel in the incorrect place and housekeeping was unable to interpret their wishes. Also, anecdotally, it has been observed that due to time constraints housecleaning staff may in fact use the towels to help clean the bathroom, wiping down the mirror or floor with the used towel (M. Parent, personal communication, July 22, 2009). Given that towel re-use programs can save a hotel as much as $6.50 per night per occupied room, there exists strong reason for more thorough staff training and explanation of the reason for the policy (Heebner, 2008). Furthermore, hotels may consider offering incentives to employees who follow policies or suggest other eco-efficiencies that may benefit the property.

The Green Market and Economic Downturns

Though the current economic climate is a priority for many business managers and consumers, environmental awareness and initiatives remain important. According to a global survey conducted by GFK America, inflation and rising prices were the largest concern of consumers, accounting for over 41% of responses. However, concerns over environmental pollution were the second-most common response, increasing to 25%, up from 22% in 2007 (GFK America, 2009). Therefore, despite economic uncertainty, environmental awareness remains high amongst consumers.

As discussed earlier, green initiatives can have significant affects on a hotels bottom line. When managers of operations are given the opportunity to budget for the long-term, they are able overlook the initial upfront costs to realize cost savings. However, during periods of lower occupancy, managers are often under pressure to demonstrate profits on monthly or quarterly basis. As such, the majority will move away from large expenditures, losing the potential for savings. For example, according to the Green Hotels Association, towel and sheet re-use programs result in less housekeeping labour, less water and detergent use and longer lasting linens. This can translate into a $6.50 USD savings per day, per occupied room (Heebner, 2008). For a hotel that has 100 occupied rooms each day, that translates into $237,250 USD in annual savings. As such, hotels should not overlook eco-efficiency upgrades during periods of economic uncertainty because they often deliver substantial cost-savings.

Additionally, as capital markets become scarce, secure investments that have lower risk are more likely to receive funding. With increasing environmental awareness and regulations, companies are looking to reduce the risk of future spending to meet government regulations. By anticipating future regulations by proactively outfitting hotels with energy-saving fittings, utilizing environmental management systems and greening building operations, hotel owners and operators can reduce the risk that they will have unexpected renovations or upgrade costs in the future.

Certification Programs

Though there exist several environmentally focused green hotel-rating systems, a global standard still remains to be implemented. EnergyStar, Green Globe 21 and the Green Hotel Association each run hotel certification programs based on a property's environmental sustainability. These differ from LEED certification in that they look at the overall operational capabilities of the property, within the specific context of hotel operations. For example, green supply chain management, water reduction in outdoor landscapes and employee education are taken into account, in addition to building efficiencies. In contrast LEED certification is a global standard, which assesses building materials, operations and energy use in any type of building.

The Hotel Association of Canada (HAC), an industry trade association, implements the voluntary Green Leaf Eco-Hotel Rating program throughout Canada. As of November 2008 there were 972 properties currently enrolled, with 729 properties rated and 229 undergoing the auditing process (Hotel Association of Canada, 2008). The program is implemented via an online audit that is reported by the property itself. Following the assignment of one to five 'Green Keys,' HAC provides a report with suggestions for future programs, which could improve efficiency and reduce environmental impact. Currently, HAC does not conduct on-site audits. Though this program does offer consumers some indication concerning the operations of a specific property, its lack of third party certification reduces its legitimacy. As noted above, Canadian consumers are skeptical when it comes to green claims and are favourable towards third-party certification. This implies that there is a need for a non trade-association based green hotel certification program. Independent claims create a higher level of credibility with the consumer and demonstrate a clearer commitment to organizational change.

Incentives and Performance Contracting

Though building a LEED certified property costs only a fraction more than a traditional building, there can be significant costs to upgrading an existing facility to meet the expectations of the green consumer segment. Building operation managers are the most suitable for researching and implementing such programs, though they are often not highly involved in the budget process. Managers should be given the ability to look at the long-term benefits of implementing various programs and cost-saving strategies. Government incentive programs and performance contracting (Chan and Ho, 2006) should be used to encourage swift implementation. As green improvement projects increasingly become the norm, government programs will be removed and one of the financial incentives for upgrades will be lost. It is therefore essential that hotels take advantage of existing programs before the competitive advantage is lost.

Location-Based Focus

Currently there is a trend for hotels operating in more rural or environmentally sensitive areas to implement a greater number of green policies. The majority of Fairmont's Canadian properties are located in natural surroundings, which align well with the corporate image of environmental sustainability. Further, six of the eight Canadian properties currently undergoing LEED certification (Table 6) are located in rural areas. Given that the location of a property is often a source of competitive advantage, hotels have a strong interest in the implementation of policies that protect the tourist destinations they operate in. In environmentally sensitive areas, tourists are demanding evidence of environmental concern on the part of the hotel (Miller, 2003). Furthermore, keeping the destination in good condition is necessary to guarantee the future viability of the tourist firms operating in it (Claver-Cortés et al., 2007). In other words, sound environmental management can improve hotel destination competitiveness.

The Potential for a Green Hotel Chain in Canada

The business case for greening a hotel is clear. There are significant cost savings that result from implementing eco-efficiencies throughout a property. Hotels also have an opportunity to create reputational capital with thoughtful program implementation and advertising. Implementing this differentiated strategy is not without challenges. If a hotel brand is misaligned or greenwashes its marketing campaign, skeptical Canadian consumers may criticize the company and choose to stay elsewhere. In contrast, Fairmont Hotels' green claims are highly credible to the consumer due to the company's environmental leadership, property locations and historic involvement with these issues.

The recent increase in larger chains creating smaller boutique style brands could offer an opportunity to companies looking to access the green consumer. According to a global Synovate poll conducted in April 2009, 10% of guests will only stay at a hotel that has a strong environmental policy.

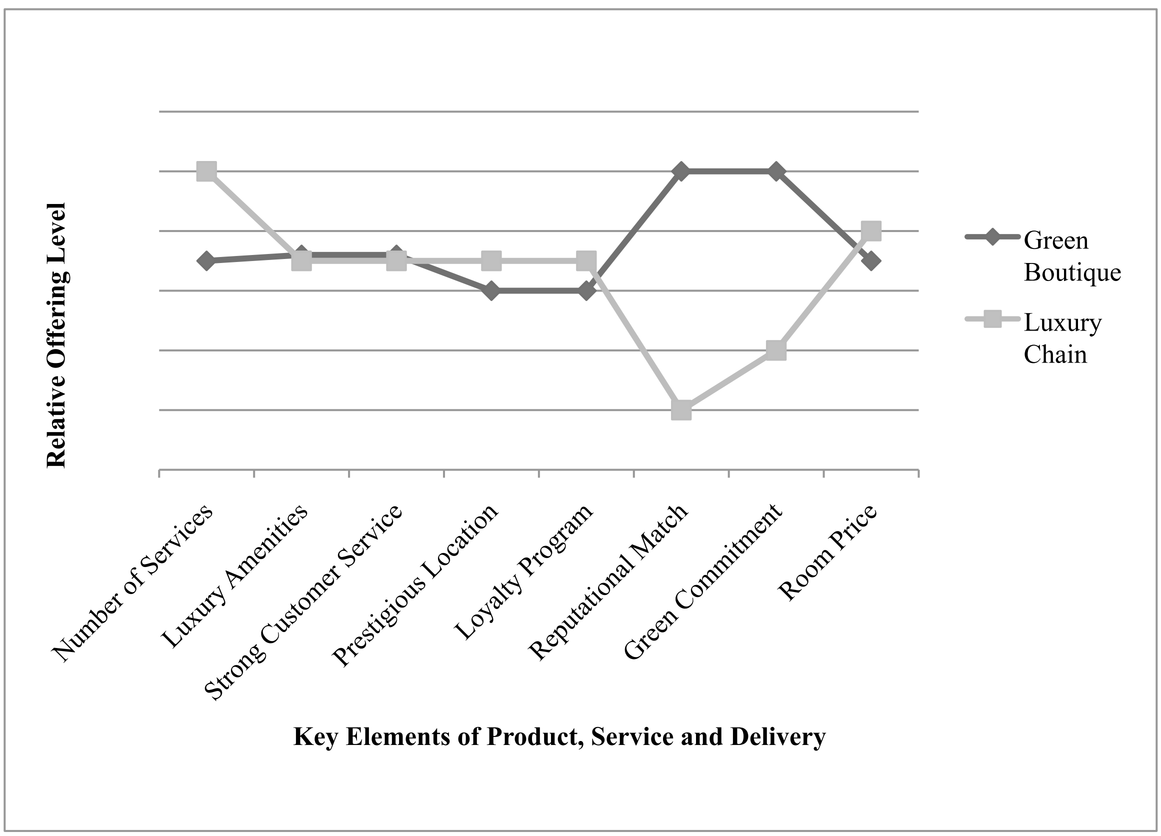

Figure 10: Value Curve for Green Boutique Hotels in Canada (Adapted from Kim and Mauborgne, 2005)

Though the green consumer may be difficult to identify, it is clear that demand for green products and services is growing. As such, there is an opportunity for hotel companies to create uncontested market space, as proposed by Kim and Mauborgne's *Blue Ocean Strategy* (2005). The value curve in Figure 10 outlines the potential new market space and highlights the differing factors between the current luxury market and potential green boutique hotels.

By focusing on value innovation, blue ocean strategies aim to develop new market potential through simultaneously creating value for the customer and reducing unnecessary features. This value curve could be applied to either a branded chain of boutique hotels or that of a sole proprietorship. With the exception of Fairmont, luxury chains would have a difficult time implementing such a strategy due to the possibility of guest criticism from a reputational mismatch. However, it may be possible to develop a smaller boutique brand that operates under a different name, and highlight the environmental benefits of this brand.

Without compromising on amenities or customer service, a smaller boutique hotel could offer consumers the most environmentally friendly accommodation possible and because of eco-efficiencies that contribute to lower operational costs, do so at a lower price point. This type of accommodation would most appeal to those consumers who consider the environmental policy of a hotel along with businesses who are eager to portray themselves as environmentally responsible.

Steps for Implementation

For a company looking to enter the market with an eco-boutique strategy it is essential that a number of steps be followed to ensure the credible creation of a sustainable and successful green brand.

Brand Concept

The most important decision facing a new entrant is to determine the structure of the eco-boutique in relation to the parent company. A hotel brand must choose to either develop an independent subsidiary or create a sub-brand, which would be associated with the larger company. The creation of a sub-brand is only recommended if the parent company has a demonstrated commitment to environmental stewardship. This is exemplified by the Fairmont group of hotels, which enjoy a strong eco-friendly reputation. Some consideration must also be given to the risk of cannibalization if an eco-boutique is located within the same area as an affiliated property.

For companies that do not already have a strong environmental policy and image, it is advisable to develop an independent subsidiary that has a clearly differentiated brand. This separation will help the new brand to avoid a reputational mismatch allowing for the creation of an independent and credible image. A company that has experience managing many different brands would have an advantage, given the proprietary information required to simultaneously define and maintain numerous brands. This key success factor is well demonstrated by Marriott, which currently operates 20 different brand names. In the case of a sole-proprietorship, decisions surrounding the brand image of the property must still be taken into consideration, though the risk of a reputational mismatch is negligible, as the company does not have a previous track record.

By maintaining a high level of customer service and amenities comparable to luxury properties, the brand will continue to appeal to the up-scale market while the green market continues to expand. An eco-boutique must offer the same level of service and amenities in order to meet consumer expectations. Quality cannot be sacrificed and a focus on value creation for the customer is key to a property's success.

Environmental Policy and Benchmarking

Clear policies and procedures must be defined and enforced for the company to maintain a high standard of environmental efficiency. This will ensure consistency between locations and strong brand association. The ability to quantify environmental successes is key in developing a credible eco-focused strategy. As such, the creation of benchmarks is essential in helping to develop integrity when reporting future improvements.

Further, the creation of a credible third party eco-certification program for hotels would greatly benefit green accommodation in Canada. Skeptical consumers would be able to easily compare properties and hoteliers would develop further credibility, adding to brand value. As such, it is advisable that new entrants to the market support the creation of an independent certification system. In the mean time, properties should report quantifiable improvements to their properties, maintaining a high level of corporate transparency as appropriate.

Market Research and Site Selection

Following the development of the brand concept, detailed market research must be conducted to determine local market characteristics and the ideal location. Given a specific location, will travellers within the green segment be primarily vacationers or business professionals? What type of services should be provided? What niche of the green market will this location serve? Each of these questions must be answered in order to maximize appeal and drive high occupancy rates.

As noted earlier, the cost to renovate a property to LEED certification is often higher than constructing a new building. As such, it is ideal for a new property to be built. This will also provide a notable marketing opportunity that can be used to create excitement and curiosity prior to launch.

Projects should move quickly to take advantage of both government incentive programs for green building upgrades as well as reduced real estate costs. The current economic climate will also contribute to cost savings during the planning and construction phase. Being the first mover in this case allows the company to set standards and become the industry benchmark for comparison, a strategy that has worked well for Fairmont Hotels and Resorts.

Site selection is an important consideration for any new hotel project. Careful consideration of local purchasing preferences, demographics and market concentration must all be carefully researched. As discussed earlier, the majority of existing eco-accommodations are located in rural areas, catering to the clientele choosing to travel to these areas. Resort areas such as Whistler B.C. or Mont Tremblant Q.C. should be considered as potential locations for flagship properties. Larger cities should not be discounted, but should be carefully researched. Vancouver, due to its appeal to the adventure and outdoor seeking crowd could also be an ideal location. Victoria or Ottawa might also be potential markets, given the high number of government offices and related events.

Developing Green and Local Supply Networks

In the months leading to opening it will be necessary to develop a network of like-minded suppliers. Ensuring that the appropriate suppliers and product networks exist is a key success factor and should be given careful consideration during site selection. Companies operating in the green segment are equally aware of consumer criticism and as such, will look to work with likeminded companies evidenced by the emerging trend of green business networks. Furthermore, featuring local suppliers and products in promotional material will also help strengthen the brand.

Implement Marketing Strategy

The next step is to develop a clear and concise marketing strategy that highlights the differentiated strategy of an eco-boutique hotel. Media exposure has the ability to help a brand develop a strong reputation, but only through careful image management that is backed-up by practice. In order to avoid reputational damage through over zealous marketing it is important that an ethical advertising policy be developed. This policy will reduce the potential for brand criticism, a significant risk for eco-branded companies

Development of Client Networks and Relationship Building

In addition to traditional public advertisement channels, a successful eco-boutique property will need to develop a strong client network within the local area. Targeted business-to-business advertising and networking will not only attract other sustainability-focused companies but will also help to create a higher profile within the community. Additionally, the strength of this network and the services they require will help to determine the mix of amenities best suited for a specific market location. To this end, these hotels will likely make use of social networking technologies like Facebook and Twitter.

An eco-boutique property could offer loyalty programs rewarding clients with carbon offsets or contributions to local environmental initiatives in addition to traditional rewards such as preferred service and room upgrades. By increasing perceived switching costs through the creation of loyalty programs, many properties are able to improve customer retention and expand market share.

Hotels must also appeal to the nature of the consumer decision process. Given that hotel services are perceived as a high-involvement purchase, hotels must work to meet consumer expectations, further increasing loyalty and thus, profitability. In the context of an eco-boutique, hoteliers would have to ensure that each employee has a strong understanding of the hotel brand and the reasons underlying green initiatives. Additionally, guests should be subtly reminded of the hotel's ongoing commitment to environmental stewardship throughout their stay. This reinforcement will contribute to customer satisfaction for those guests who choose the property based solely on their environmental policies.

Green Employee Training

Finally, careful consideration must go into employee selection and training to ensure that each member of staff understands the underlying differentiated strategy that will drive property success. By seeking employee opinion and involving employees in policy creation there will be greater understanding and compliance with hotel procedures. Consistency between all levels of employees is key to developing a strong brand, remembering that by labelling itself as an eco-boutique, guests will expect a high standard of environmental stewardship throughout all aspects of the business.

7: Conclusions

As the hotel industry as a whole goes green, companies looking to differentiate themselves based on environmental appeal are facing an increasing number of challenges. In order to stay competitive, hotels must continue to develop new cost-saving eco-efficiency programs. However, given that many hotels are highlighting their environmental initiatives, it is becoming increasingly difficult to maintain a competitive advantage. Furthermore, competition is strong throughout the Canadian hotel industry and there is an increasing trend for properties to compete on price rather than the quality and scope of services offered. By accessing new market potential, an eco-boutique brand could compete on a differentiated strategy, creating new market space.

As with any new venture there are significant risks, but if done correctly, there is strong potential for growth in this emerging industry. The consumption of green products and services is on the rise and consumers are increasingly critical of corporate practices. By differentiating itself as an eco-boutique, a hotel property has the potential to capture new market space. However, this will only occur with the implementation of a thoughtful strategy that addresses the complex nature of both the hotel industry and the green consumer. After the cost-savings of eco-efficiencies are realized, the only way for hotels to maintain an environmentally differentiated strategy is a complete and credible greening of their brand.

Appendix A: Summary of Canadian Hotel Industry Players

Company	*Total Canadian Holdings*	*Annual Canadian Revenue ($Million)*	*Avg. Annual Revenue Per Property ($Million)*
Four Seasons Hotels & Resorts Ltd.	3	$143.1	$47.7
New Castle Hotels & Resorts	4	$155.7	$38.9
Fairmont Hotels & Resorts Inc.	21	$716.1	$34.1
Sutton Place Grande Hotel Group Inc	3	$76.0	$25.3
Loews Hotels	2	$44.3	$22.2
Liverton Hotels International Inc.	2	$41.0	$20.5
O'Neil Hotels & Resorts Ltd.	3	$50.4	$16.8
Starwood Hotels & Resorts Worldwide Inc.	49	$730.0	$14.9
KSD Enterprises Ltd.	3	$43.6	$14.5
Hockley Valley Resort	1	$13.8	$13.8
Delta Hotels & Resorts	42	$570.0	$13.6
Marriott Hotels of Canada	56	$689.0	$12.3
Stagewest Hospitality	2	$24.4	$12.2
CHIP Hospitality Vancouver	32	$348.9	$10.9
Centennial Hotels & Suites	5	$51.8	$10.4
Genesis Hospitality Inc.	6	$48.3	$8.1
Westmont Hospitality Group	176	$1,361.5	$7.7
Royal Host Real Estate Investment Trust	41	$279.0	$6.8
Hilton Hotels Corp. Canada	63	$423.0	$6.7
Millcroft Inn	1	$6.6	$6.6
Atlific Hotels & Resorts	35	$220.4	$6.3
Coast Hotels & Resorts	42	$254.9	$6.1
Executive Hotels & Resorts	16	$93.0	$5.8
Carlson Hotels Worldwide	36	$207.4	$5.8
Easton's Group of Companies	8	$41.5	$5.2
Group Germain	5	$23.6	$4.7
Accor Canada Inc.	20	$89.8	$4.5
North Hampton Group Inc.	16	$57.5	$3.6
Sandman Hotels, Inns & Suites	35	$125.5	$3.6
IHG InterContinental Group	124	$415.3	$3.3
Best Western International Inc.	186	$550.0	$3.0
Monte Carlo Hotel-Motel International	6	$15.0	$2.5
Sequel Hotels & Resorts	3	$7.3	$2.4
Rodd Hotels & Resorts	10	$21.8	$2.2
Days Inn Canada	89	$151.0	$1.7
Choice Hotels Canada Inc.	274	$450.0	$1.6
Pacrim Hospitality	59	$93.0	$1.6

Superior Lodging Corp.	127	$157.5	$1.2
Gouverneur Inc.	13	$15.3	$1.2
Full House Franchise Systems Ltd.	54	$50.7	$0.9
Bellstar Hotels & Resorts	9	$8.1	$0.9
Total Number of Hotels:	1682		
Average Revenue Per Property:	$5.3		
Total Industry Revenue from Top 40:	$8,865		
Total Industry Revenue from HAC:	$18,800		
Concentration Ratios			
C4 Ratio Based on Top 40 Revenue:	39.44%		
C4 Ratio Based on HAC Industry Revenue:	18.60%		
(Adapted from The Hotel Association of Canada, 2009)			

Appendix B: Drivers of Cash Flow Resulting from Eco-Efficiencies

Profit and Loss Items	*Stake Holders*	*Drivers*	*Expected Impact*	*Cash Flow Impact*
Revenues	Customers Government	Corporate spending policies Government agencies example Dedicated on-line distribution channel Additional benefit for loyalty programmes	Customer Retention	Same or Increasing
Wages	Employees	Higher motivation, involvement Enhanced employer attraction Reduced turnover costs Higher operational performance	Reduced Turnover Costs Higher Operational Performance	Decreasing
Amenities & Supplies	Suppliers	Increased demand from hoteliers Increased purchase and bargaining power of operators Increased availability of eco-alternatives	Cost Reduction or Match With Regular Products, No Premium	Same or Decreasing
Administrative & General Costs	Employees	Reduced staff turnover Reduced need for recruitment	Reduced Recruitment and HR Costs	Decreasing
Sales & Marketing Costs	Customer	Targeted channels, specialised press, free PR Increased proportion of on-line marketing	Improved Customer Reach Reduced Costs	Decreasing
Utilities	Suppliers	Increased energy prices Increased expertise in energy efficient buildings Cost Decrease of Energy and Waste Management Systems Savings traceability Customer and staff involvement	Energy Cost Reduction	Decreasing
Maintenance	Suppliers	Improved durability of materials	Reduced Need for Maintenance	Decreasing
Insurance	Owner/Operator	Better compliance with building norms and certifications Decreased risk	Decreased Premium	Decreasing
Rent	Owner	Increasing demand for green buildings Improved well being of occupiers Improved maintenance costs and reliabiilty	Potential for Lease Premium	Same or Increasing
Incentive Fee	Owner/Operator	Questioning - refocus of operator on operations	Potential reduction in % cost or refocus on other criteria (triple bottom line - special performance criteria)	Same or Decreasing
Debt Interest	Lenders	Increasing reliability of building Improved marketabiity Decrease of risk Improved cash flows Reduced risk of default Stronger negotiation position	Improved lending terms Eased access to debt financing Increased tax shelter	Same or Decreasing
Tax	Government	Government support in green initatives (location dependant)	Tax deductions Reduction in building costs through grants	Same or Decreasing
Reserve for Replacement	Owner/Operator	Improved durabilty of materials	Reduced cost of reserve for replacement Extension fo four-year capital expenditure cycle	Decreasing
Debt Principal Repayment	Lenders	Same as debt interest above	Potentially higher loan to value ratio	Same or Increasing
Equity Cash Flows	Owner	Lower tax interest Improved operational performance Reduction of fixed costs Lower maintenance investment (capital expenditure)	Increased cash flows	Increasing
Return on Equity	Owner	Access to debt financing Quality of cash flows	Higher loan to value ratio Improved cash flows	Increasing

(Adapted from Ricord, 2009.)

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