

**A STRATEGIC ANALYSIS OF THE WESTIN BAYSHORE
RESORT & MARINA AND STARWOOD HOTELS &
RESORTS**

by

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B.A., York University 1992

PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

In the Faculty

of

Business Administration

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SIMON FRASER UNIVERSITY

Summer 2005

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ABSTRACT

This paper will examine a hotel and its relationship with a hotel management company.

Chapter one, Markets and Overview describes target markets, revenue streams and market shares of firms.

Chapter two, Industry Analysis, includes a discussion of scope, key competitors, five forces of power and key success factors of the firms.

Chapter three, named Internal Analysis, discusses the: generic strategies, five forces of power analysis, internal analysis, generic strategies and organizational competencies. This Chapter includes discussion on: value chain analysis, core competency, culture and organizational structures. Lastly a financial analysis of the firms is provided.

Chapter four, named Issues, identifies: problems with the management contract structure; absence of management company leverage hotel ownership; organizational structure concerns; and, operational inefficiencies.

Chapter five discusses the following recommendations: changes to managed hotel contracts; changes to the organizational structures of the firms; implementing performance incentives; and, converting the hotel into condominiums.

DEDICATION

To my loving wife Sandra, who has steadfastly supported me through my scholastic journey.

Also to my parents Carol and Jimmy Coon who in large part defined who I am today.

ACKNOWLEDGEMENTS

Special thanks to my wife, Sandra, who has steadfastly stood by me during my two years of study, that were coincidentally also our first two years of marriage.

Thanks to both my family and friends who provided me with support and encouragement during my MBA school experience.

Thanks to my EMBA team Jay Roberts, Helmut Neuper, Soo Loh and Jackie Ka Man Lee, whose encouragement and help made the experience a great one.

Thanks to, Ida Crisostomo, Gilles Fraissange, Pam Sirney, Emma Fyfe, Carmen Villarin and Brian Mayer, who provided me with sage advice and guidance during my MBA experience.

Extra special thanks goes to Mark S. Andrew, who provided me with inspiration and encouragement I needed to complete the program. His support made it possible to complete my MBA.

Finally thanks to Ed Bukszar for his time and endless patience.

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GLOSSARY

ADR – Average Daily Rate

CDN – Canadian Dollar currency

REVPAR – Revenue per available room

The Parent Company – Refers to Blue Tree Hotels & Resort’s (Canada) parent company – A joint venture partnership between Starwood Hotels & Resorts Capital Group LLC and The Caisse de Dépôt et Placement du Québec.

USD – United States Dollar currency

1 PRODUCTS/MARKETS AND OVERVIEW OF THE FIRM

1.1 Description of Organization

The Westin Bayshore Resort & Marina is a 510 room, luxury conference resort located in Vancouver BC, Canada. The Westin Bayshore Resort & Marina was originally opened in 1962 as a small inn. The Westin Bayshore Resort & Marina has undergone several remodelling and expansion initiatives during its 45-year history. Up until its most recent renovation in 2000, The Westin Bayshore Resort & Marina relied on transient based customers. Transient customers are considered those that make individual guest room reservations on a per night basis, as opposed to group customers who purchase multiple guest room reservations on a per night basis.

In April 2000 The Westin Bayshore Resort & Marina underwent a major \$55 million dollar renovation that transformed it into a new, group-based, state of the art conference facility. The renovations included a public space renovation, a partial guest room renovation, and the addition of a 47,000 square foot conference centre. In its current condition, The Westin Bayshore Resort & Marina employs approximately 430 associates, of which a large portion has worked at The Westin Bayshore Resort & Marina for more than 10 years.

1.2 The Westin Bayshore Resort & Marina Ownership

The Westin Bayshore Resort & Marina's Owner is owned by a parent company known as Blue Tree Hotels & Resorts (Canada). Blue Tree Hotels & Resorts (Canada) is a joint venture partnership between Starwood Capital Group LLC and The Caisse de Dépôt et Placement du Québec. The Westin Bayshore Resort & Marina is one of 10 hotels that the Parent Company owns.

Starwood Capital Group LLC is a real estate investment firm operating out of Greenwich, Connecticut. Barry Sternlicht is President & CEO of the Company. Starwood Capital Group LLC controlled more than \$8 billion USD of investments, as of May 2005. Of those investments the company's hotel portfolio included 55,000 hotel rooms. The company has a significant investment interest in Starwood Hotels & Resorts, which is considered a separate and unrelated company.¹

The Caisse de Dépôt et Placement du Québec is a pension fund run by the Quebec Government. The fund was created in 1965 by an act of the Quebec legislature. It is responsible for actively managing the funds of its depositors, the taxpayers of Quebec. As of May 2005, The Caisse de Dépôt et Placement du Québec controlled over 172 billion dollars worth of assets of which 43 billion dollars is in their real estate portfolio. Based on their 2003 annual report The Caisse de Dépôt et Placement du Québec manages approximately \$1.1 billion CDN in residential and hotel assets.²

¹ Starwood Capital Group. Company Overview, <http://www.starwoodcapital.com/mainpages/coverview.htm>

² The Caisse de dépôt et placement du Québec. "Company Overview" www.lacaisse.com/Press/RapportFinancier.aspx

1.3 Hotel Management Company

The Westin Bayshore Resort & Marina is run by a management company named Starwood Hotels & Resorts and not by its owners, Blue Tree Hotels & Resorts (Canada). Starwood Hotels & Resorts is a separate and independent company from Starwood Capital Group LLC. Starwood Hotels & Resorts is a multinational, integrated hotel company with 750 owned and managed hotels in its portfolio.³ Starwood Hotels & Resort's hotel brands compete in the Upscale, Upper Upscale and Luxury hotels segments under the following brand names: Sheraton Hotels, Westin Hotels, St. Regis Hotels, Luxury Hotels, W Hotels, Four Points by Sheraton Hotels and Starwood Hotels & Resorts Vacation Ownership. In April 2005, Steve Heyer was named new Chief Executive Officer of Starwood Hotels & Resorts. Prior to this the Chief Executive Officer was Barry Sternlicht.

The Westin Bayshore Resort & Marina's management contract with Starwood Hotels & Resorts is a general management contract that includes all day-to-day hotel operations of The Westin Bayshore Resort & Marina. The Westin Bayshore Resort & Marina owner's responsibility for the property is limited to approval of capital expenditures and annual budget plans. Prior to May 2005, the working relationship between Starwood Hotels & Resorts and Blue Tree Hotels & Resorts (Canada) was strained due to a non-performance lawsuit brought about by Blue Tree Hotels & Resorts (Canada). However, this lawsuit and the strained relationship between Starwood Hotels & Resorts and Blue Tree Hotels & Resorts (Canada) was resolved by the purchase of

³ Starwood Hotels & Resorts, Year End Report, March 2005, http://www.starwoodhotels.com/corporate/investor_relations.html

Blue Tree Hotels & Resorts (Canada) by Starwood Capital LLC and The Caisse de Dépôt et Placement du Québec.

1.4 Hotel Owners versus Hotel Management Companies

Hotel owners can choose to run their own properties, or they can contract operational responsibilities to a hotel management company. Hotel owners who choose to run their hotels independently are responsible for their hotel's long-term strategic objectives, as well as the day-to-day operations of the hotel. Hotel owners that choose to have their hotels run by a hotel management company relinquish all day-to-day control of the hotel. Their input becomes limited to annual budgets, long-term strategic decisions and all capital investment decisions.

Hotel management companies operate hotels on behalf of hotel owners in exchange for monthly fees. Generally, hotel management companies are responsible for creating annual budgets, making recommendations for capital expenditures and all aspects of hotel operations. Operational responsibilities are comprehensive and generally include all facets of the operation including financial, human resources and maintenance. An important distinction between a managed hotel and an owner-managed hotel is that an agent runs the managed hotels on behalf of Blue Tree Hotels & Resorts (Canada). Under a hotel management agreement, hotel owners relinquish control of day-to-day decision-making. They do however retain all financial responsibility for the entire hotel. This includes responsibility for payment of all labour and materials required to operate the hotel property.

1.5 Focus of Paper

This paper is a strategic analysis on The Westin Bayshore Resort & Marina and its hotel management company, Starwood Hotels & Resorts. This paper will provide an overview of both of these firms, their products and their markets.

An industry analysis will be performed on The Westin Bayshore Resort & Marina and The Hotel Management Company. The industry analysis will include discussions of the hotel industry: scope, key competitors, overall attractiveness and key success factors.

An internal analysis will be performed on the two firms. This analysis will discuss: the generic strategies of the firms; the relationship between the two firms using a value chain analysis; the firms' core competencies; their competitive advantages; culture; and, organizational structure of the companies. Finally, the paper will provide a financial analysis on each of the companies.

Using the industry analysis and internal analysis discussions as reference points, the paper will identify the key issues affecting the relationship between these two companies. The key issues of the companies as independent entities will also be discussed.

Lastly the paper will make recommendations to address the key issues. The recommendations will speak to how the two firms can: improve the management contract that binds them; improve their organizational structures; implement performance incentive plans; and, increase the value of The Westin Bayshore Resort & Marina by its conversion to condominiums.

1.6 Resort Services

The Westin Bayshore Resort & Marina has three primary services that comprise its primary product offering: hotel guest room, conference and food and beverage services. These services can be purchased individually or in any combination. The Westin Bayshore Resort & Marina's customers receive these services in the form of collection of experiences that this paper will be referred to as experience bundles. Descriptions of these experience bundles are contained in the following paragraphs.

The hotel guest room experience bundle includes the entire experience set customers receive when they purchase guest rooms from The Westin Bayshore Resort & Marina. Guest rooms are usually purchased for overnight accommodation. Guest room customers typically utilize valet, bell, front-desk, housekeeping, engineering and telephone operator services when they purchase accommodations from The Westin Bayshore Resort & Marina.

The conference experience bundle includes the entire experience set customers receive when they purchase a conference room from The Westin Bayshore Resort & Marina. Conference rooms are typically purchased by customers to host meetings and conferences that range in size from 5 to 2000 attendees. Conference customers typically utilize audio visual, banquet service, banquet housemen, culinary and stewarding services when they purchase conference services from The Westin Bayshore Resort & Marina.

The Food & Beverage experience bundle includes the entire experience set customers receive when they purchase food and/or beverage from The Westin Bayshore Resort & Marina's food & beverage outlets. Food & beverage customers typically utilize hostess, culinary, stewarding, server and bartender services.

1.6.1 Guest Rooms

The Westin Bayshore Resort & Marina's 510 guest rooms are tastefully decorated and meet the requirements of an upper upscale facility. The majority of The Westin Bayshore Resort & Marina's guest rooms enjoy a spectacular view of the surrounding harbour and coastal mountains. The guest rooms are outfitted with Westin's signature Heavenly Bed® and Heavenly Bath® products. Internet access is available in all guest rooms either via wired or wireless technology. Although the guest rooms are considered to be in good physical condition they will be due for renovation during 2006 or 2007.

1.6.2 Conference Facilities

The Westin Bayshore Resort & Marina's 47,000 square foot conference facility is a well laid out, functional space that has proved popular with professional meeting planners. The conference centre is considered large for a 510-room hotel. The meeting rooms within the conference centre have a large number of mobile "air walls" which allow for flexible space configuration. The conference centre also includes state of the art environmental, electrical and communication infrastructure that allows The Westin Bayshore Resort & Marina to provide a superior meeting experience to its customers. The Westin Bayshore Resort & Marina's banquet kitchen is renowned for its high quality food and has the capacity to prepare and serve all of The Westin Bayshore Resort & Marina's conference guests a full range of meals.

1.6.3 Food & Beverage Outlets

The Westin Bayshore Resort & Marina has three food outlets: Currents Restaurant, Sea Wall Restaurant and Stanley Perks at Bayshore. Currents Restaurant is a

breakfast only facility, primarily serving hotel guests Monday through Friday. It also offers a brunch buffet on weekends. Sea Wall Restaurant serves both lunch and dinner. These two restaurants serve a mix of both hotel and local clients. Stanley Perks at Bayshore is a coffee shop that serves coffee and light snacks during the day. Stanley Perks at Bayshore primarily serves The Westin Bayshore Resort & Marina's guests.

1.7 Target Market

The Westin brand target audience is North American individual and group contemporary business travellers aged 25 to 50 years old with incomes of \$100,000 USD or greater. The brand is attempting to appeal to career-minded, risk-taking leaders who are socially active.⁴

The Westin Bayshore Resort & Marina's target market mirrors that of the Westin brand, with the exception that it is limited to the groups and individuals that can consider the City of Vancouver as a destination.

1.7.1 Guest Rooms

Although The Westin Bayshore Resort & Marina accepts all business, The Westin Bayshore Resort & Marina targets Vancouver bound overnight guest room occupants whose travel originates in North America. The Westin Bayshore Resort & Marina's goal is to achieve a 70/30 group to transient guest room sales ratio.

The hotel guest room market consists of two primary market segments, group and transient. The Westin Bayshore Resort & Marina defines the group market as any guest

⁴ Starwood Hotels & Resorts, The Westin Brand Document, "Brand Positioning", Page 10, http://development.starwood.com/os_main.php

room sale of 11 guest rooms or more. The transient guest room market is defined as any guest room sale of 10 guest rooms or less. Within these primary market segments there are many sub-segments.

A 70/30 group to transient guest room market segment sales ratio was calculated as the optimal guest room market segment sales mix that would allow The Westin Bayshore Resort & Marina to generate maximum profit levels. The guest room market segment sales ratio is calculated by dividing the total number of sold group guest rooms by the total number of transient guest rooms. The Westin Bayshore Resort & Marina is able to create a condition in which demand for transient guest room nights exceeds The Westin Bayshore Resort & Marina's supply of guest rooms by securing a large group room base at lower rates. Within the hotel industry this condition is referred to as compression. During compression periods, The Westin Bayshore Resort & Marina is able to raise room rates and thereby increase profits. Thus by targeting a 70/30 group to transient sales mix goal, The Westin Bayshore Resort & Marina is seeking to maximize its profit potential by creating optimal compression conditions.

The majority of The Westin Bayshore Resort & Marina's sales and marketing resources are used to capture group room sales using a push strategy. A smaller portion of The Westin Bayshore Resort & Marina's marketing resources is used to capture transient guest rooms using a pull strategy. The Westin Bayshore Resort & Marina executes the push strategy with a sales team of approximately 25 associates, who are responsible for selling The Westin Bayshore Resort & Marina's services to new and existing clients. A Director of Sales and Marketing leads the department. All of The Westin Bayshore Resort & Marina's sales associates report to the Director of Sales and

Marketing. The push sales strategy is executed centrally by Starwood Hotels & Resort's Westin brand. The Westin transient marketing program is uses a combination of print and television media to attract customers.

The Westin Bayshore Resort & Marina also uses Starwood Hotels & Resort's Preferred Guest loyalty program to advertise to Starwood Hotels & Resort's transient guests. Starwood Hotels & Resort's Preferred Guest program has been merged with The Westin Bayshore Resort & Marina's customer relationship manager to allow The Westin Bayshore Resort & Marina to market directly to Preferred Guest Program customers.

1.7.2 Conference Services

The Westin Bayshore Resort & Marina's Conference Service department targets an identical target market and uses the same marketing resources as The Westin Bayshore Resort & Marina's group guest room department.

1.7.3 Food & Beverage Outlets

The Westin Bayshore Resort & Marina's food and beverage outlet's primary target market is The Westin Bayshore Resort & Marina's residents and any walk in customers that are seeking what is commonly referred to within the industry as a continental menu selection.

A continental menu is generally comprised of a wide selection of popular food entrées. Continental food options would likely include a selection of steak, chicken or fish in combination with local and seasonal vegetables. The continental menu differs from a specialized menu offering which might list all French food entrées or other menu items of a specialized menu items.

The Westin Bayshore Resort & Marina's goal is to capture as many of its guest room customer's covers on a day-to-day basis as possible. A cover meal is referred to as a complete meal within the hotel and restaurant industries. The Westin Bayshore Resort & Marina has not determined optimal cover capture rates; therefore outlet managers are not collecting, nor are they monitoring these statistics.

The Westin Bayshore Resort & Marina's food and beverage outlet secondary target market are local residents from the City of Vancouver area. The Westin Bayshore Resort & Marina's goal is to lure local customers to fill any capacity that has not been utilized by internal Resort guests. The Westin Bayshore Resort & Marina has not determined optimal internal to external cover ratios, nor does it have current data analysis on this topic.

1.8 Influences on Market Behaviour

1.8.1 North American Hotel Market

The North American hotel market has undergone an exceptional period of change in the last five years. The combination of technology and world events has had a profound effect on hotel customer behaviour. Internet technology has allowed hotel customers to make more informed purchases more rapidly than ever before. The September 11, 2001 terrorist attack, in the United States of America has permanently shortened the booking lead times of hotel customers and their length of stays.⁵ These behaviours are enabled by Internet reservation booking systems that allow customers to source and book hotel rooms more rapidly than ever before. The net result is customers

⁵ Tourism Vancouver Marketing Research Department, "Pisa Forum Report", 10th Annual World Travel Monitor Forum, Pisa Italy via 2004 Travel Trends

who are better informed, a more competitive hotel market place and higher risk for hotel operators.

1.8.2 Greater Vancouver Hotel Industry

The Greater Vancouver Hotel Industry has had annual room night growth of 1.42% in 2003 and 4.22% in 2004. The region expects to continue this strong performance with forecasts of an additional 1.2% growth in 2005. The long term Vancouver Hotel Industry outlook remains positive in part due to the 2010 Winter Olympics.⁶

1.9 Product Differentiation

The Westin Bayshore Resort & Marina uses a differentiated product strategy for all three of its primary products: guest rooms, meeting services and food and beverage outlets. The differentiated product strategies of The Westin Bayshore Resort & Marina's guest rooms, meeting services and food and beverage outlets are described in the following paragraphs.

1.9.1 Guest Rooms

The Westin Bayshore Resort & Marina differentiates its guest room product using trademarked furnishings and unique guest room views. Starwood Hotels & Resort's Westin brand has developed unique room furnishings and products for its guest rooms labelled "Heavenly" that are only available from Westin Hotels. The Westin brand has released Heavenly Beds®, Heavenly Showers®, Heavenly Cribs® and Heavenly Dog Beds®. Each of these products has been custom designed to Westin specifications. The

⁶ Tourism Vancouver Marketing Research Department, Tourism Data for Greater Vancouver 2003 – 2004

Westin Bayshore Resort & Marina also differentiates its guest room product by selling unique guest room views of Vancouver's Burrard Inlet and the surrounding North Shore mountains.

1.9.2 Meeting Services

The Westin Bayshore Resort & Marina has differentiated its meeting service products by providing the best conference centre facilities in the city. The Westin Bayshore Resort & Marina's conference centre provides approximately double the amount of conference space per guest room than any other hotel in the city. The conference centre is wired with state of the art electrical and data systems, including wireless Internet. The convention centre meeting space is flexible and can be readily reconfigured using a moveable wall system. The Westin Bayshore Resort & Marina also offers VIP meeting services such as white jacket table service, upgraded linen packages and boardroom chairs.

1.9.3 Food & Beverage

The Westin Bayshore Resort & Marina differentiates its food and beverage services using unique restaurant concepts. All of the three of its food and beverage outlets, Currents Restaurant, Sea Wall Bar & Grill and Stanley Perks at Bayshore are based on a boutique concept, unique to The Westin Bayshore Resort & Marina.

1.9.4 Competitive Placement of Resort

The Westin Bayshore Resort & Marina has sought to place itself in the top three of the downtown Vancouver hotels as measured by the city's revenue per available room (REVPAR), average daily rate and hotel occupancy indexes. The Westin Bayshore

Resort & Marina's 2004 pricing, as measured by REVPAR, placed it fifth amongst the top twenty downtown hotels at a price of \$129.92 CDN. The hotels that had higher REVPAR were The Opus Hotel, The Pan Pacific, The Fairmont Waterfront and The Westin Grand Hotel.

Table 1: City of Vancouver Month End REVPAR Statistics – Year to Date Ending Dec 04

Rank	Hotel Name	REVPAR
1	The Opus Hotel	\$166.57
2	Pan Pacific Hotel	\$148.77
3	Fairmont Waterfront	\$144.61
4	Westin Grand	\$132.34
5	Westin Bayshore	\$129.92
6	Fairmont Hotel Vancouver	\$119.09
7	Fairmont Airport Hotel	\$112.76
8	Sheraton Wall Centre	\$105.64
9	Pacific Palisades	\$104.88
10	Delta Vancouver Suites	\$103.86
11	Metropolitan Hotel	\$102.76
12	Sutton Place	\$98.02
13	Marriott Pinnacle	\$97.73
14	Hyatt Regency	\$96.81
15	Listel Vancouver	\$94.55
16	Coast Plaza Hotel	\$94.51
17	Residence Inn by Marriot	\$87.21
18	Renaissance Marriott	\$81.66
19	Crowne Plaza Hotel Georgia	\$79.76
20	Holiday Inn Hotel & Suites	\$76.82

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When measured by average daily rate (ADR) The Westin Bayshore Resort & Marina placed fourth at a rate of \$178.10 CDN. A hotel's ADR is calculated by dividing a hotel's total guest room revenue over by the total number of hotel guest room nights sold. The Hotels that exceeded The Westin Bayshore Resort & Marina's ADR were The Opus Hotel, The Pan Pacific Hotel, The Fairmont Waterfront Hotel and The Westin Grand Hotel.

⁷ Starwood Hotels & Resorts The Westin Bayshore Resort & Marina Competitive Set Report, 2004

Table 2: Vancouver Average Daily Rate Month End Statistics, Year to Date Ending Dec 04

Rank	Hotel Name	\$ Average Rate
1	Opus Hotel	\$ 206.99
2	Pan Pacific Hotel	\$ 206.05
3	Fairmont Waterfront	\$ 193.50
4	Westin Bayshore	\$ 178.10
5	Fairmont Hotel Vancouver	\$ 176.21
6	Westin Grand	\$ 171.16
7	Sheraton Wall Centre	\$ 158.55
8	Metropolitan Hotel	\$ 156.67
9	Fairmont Airport Hotel	\$ 152.84
10	Sutton Place	\$ 151.67
11	Hyatt Regency	\$ 149.86
12	Pacific Palisades	\$ 148.32
13	Listel Vancouver	\$ 135.89
14	Delta Vancouver Suites	\$ 131.39
15	Marriott Pinnacle	\$ 130.49
16	Coast Plaza Hotel	\$ 128.14
17	Renaissance Marriott	\$ 124.45
18	Residence Inn by Marriot	\$ 119.17
19	Holiday Inn Hotel & Suites	\$ 109.44
20	Crowne Plaza Hotel Georgia	\$ 105.88

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1.10 Offering Portfolio

Starwood Hotels & Resorts owns seven hotel brands: Westin, W, Sheraton, Four Points by Sheraton, St Regis, Luxury and Le Meridian. Each of the Brands has separate fixture and quality standards. In the City of Vancouver's downtown area, Starwood Hotels & Resorts has two other hotels, The Sheraton Wall Centre Vancouver and The Westin Grand Hotel, both of which are franchise hotels. As franchise hotels, Starwood Hotels & Resort's control of these hotels is limited to appearance, quality levels and any interaction that occurs with Starwood Hotels & Resort's central reservations network. Starwood Hotels & Resorts has no control of a franchise hotel's rate structure or sales strategy. The Westin Bayshore Resort & Marina frequently competes with both of these franchise hotels for group and transient hotel guest rooms.

⁸ Ibid

1.11 The Westin Bayshore Resort & Marina's Associated Revenue Streams

During 2004, The Westin Bayshore Resort & Marina had total gross revenue of \$44.4 million, and a gross operating profit (GOP) of \$15 million. The revenues and gross operating profits are as follows:

Table 3: Revenue and GOP % Table, The Westin Bayshore Resort & Marina

	Revenue	%	GOP	%
Rooms	\$24,250,373	55%	\$11,133,951	73%
Conference Services	\$8,759,261	20%	\$1,801,962	12%
F&B Outlets	\$4,840,079	11%	\$1,184,049	8%
Miscellaneous	\$6,635,075	15%	\$1,077,529	7%
Total	\$44,484,788	100%	\$15,197,491	100%

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Detailed explanations of the Rooms, Conference Services, Food and Beverage and Miscellaneous Departments are provided in the following sections.

1.11.1 Rooms Division

The Rooms Department is the primary income-earning department of The Westin Bayshore Resort & Marina earning 55% of overall revenue, but generating 73% of the gross operating profit of The Westin Bayshore Resort & Marina. Rooms Division is considered the profit backbone of any traditional luxury hotel operation that does not include gaming. Other departments within The Westin Bayshore Resort & Marina are considered complementary to the Rooms Division and should assist The Westin Bayshore Resort & Marina to achieve increased room night occupancies.

⁹ The Westin Bayshore Resort & Marina, Year End Financial Statements, 2004

1.11.2 Conference Services

The Conference Services Department is the second largest income-earning department earning 20% of the overall revenue and generating 12% of the gross operating profit of The Westin Bayshore Resort & Marina. Although the Conference Service Department does not earn its fair share of gross operating profit, it is the principle reason that group customers choose The Westin Bayshore Resort & Marina and is, therefore, considered a required amenity that increases overall guest room sales. Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina have both focused on increasing the profit contribution of the Conference Service Department. During 2003, The Westin Bayshore Resort & Marina participated in Starwood Hotels & Resort's Meeting Services project that saw The Westin Bayshore Resort & Marina implement improved meeting service levels. In 2004 The Westin Bayshore Resort & Marina completed the increase meeting room rental charge project. These projects are expected to increase The Westin Bayshore Resort & Marina's conference service profit contribution.

1.11.3 Miscellaneous

The Miscellaneous Department is the third largest income-earning department earning 15% of overall revenue and 7% of the gross operating profit. Miscellaneous Departments include a number of small revenue areas that individually are not material to The Westin Bayshore Resort & Marina. The departments in this category at The Westin Bayshore Resort & Marina are: Telecommunication, Business Centre, Guest Laundry, Hotel Laundry, Health Club, Marina, Rent and Service Express. Although these

departments do not carry their fair share of the profit load, many are considered essential amenities of a luxury hotel. Brief explanations of these departments are as follows.

Table 4: The Westin Bayshore Resort & Marina Miscellaneous Revenue & Profit Comparison
(Profit before undistributed expenses)

Department	Revenue	%	Profit	%
Telecommunication	\$965,672	2.2%	\$416,999	1.7%
Business Centre	\$68,984	0.2%	\$65,166	0.3%
Guests Laundry	\$95,645	0.2%	\$127	0.0%
Health Club	\$154,643	0.3%	\$35,092	0.1%
Marina	\$317,288	0.7%	\$92,903	0.4%
Rent	\$798,601	1.8%	\$531,954	2.2%
Total Hotel Revenue			\$44,484,788	
Total Hotel Department Profit			\$24,079,970	

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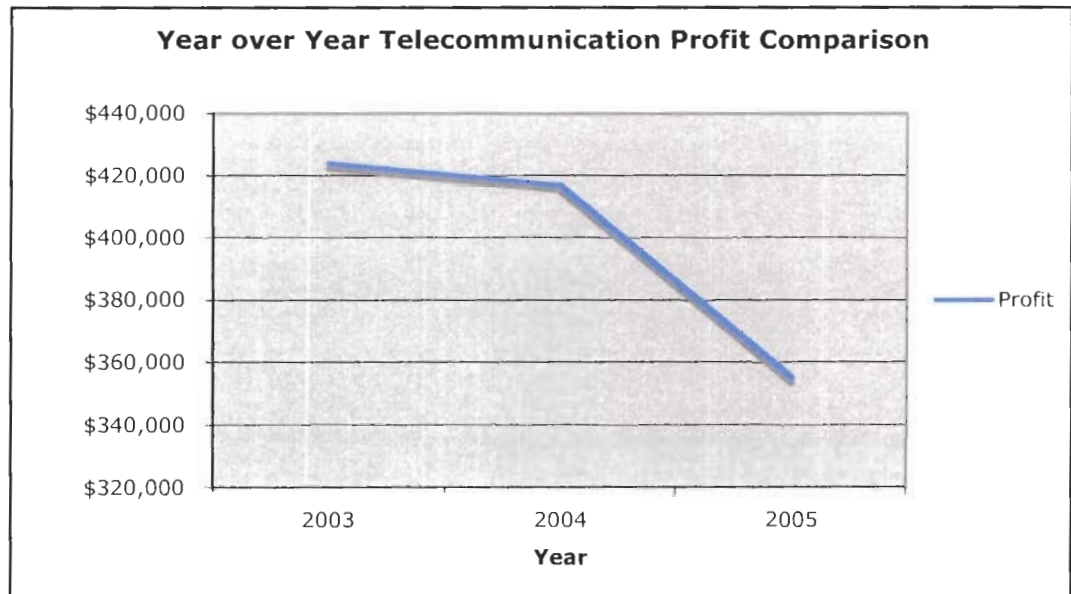
1.11.3.1 Telecommunication Department

The Telecommunication Department is responsible for 2.2% of total hotel revenue and 1.7% of total department profit. The department is comprised of The Westin Bayshore Resort & Marina telephone switchboard group including, all phone revenues from long distance and local call charges as well as any Internet revenues. In the past The Westin Bayshore Resort & Marina's telecommunication department has been highly profitable however, the emergence of mobile phone technology with low cost long distance rate plans have forced The Westin Bayshore Resort & Marina to compete against the mobile phone companies for long distance use. As a result The Westin Bayshore Resort & Marina has seen a steady decrease in telecommunication department profitability.

¹⁰ The Westin Bayshore Resort & Marina, Year End Financial Statements, 2004

The emergence of the Internet and the resulting Internet access charges that The Westin Bayshore Resort & Marina has been able to earn have helped to slow the decline of the Telecommunication Department profitability. However, customers have been conditioned by the low prices available outside The Westin Bayshore Resort & Marina and are often unwilling to tolerate high cost Internet access charges. As a result, the entire hotel industry is experiencing constant downward pressure on Internet access charges. In response to this overall industry trend in telecommunications revenue, The Westin Bayshore Resort & Marina is predicts that it will be forced to provide complimentary Internet access to customers within the next five years.

Figure 1: Year over Year Telecommunication Profit Comparison



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¹¹ The Westin Bayshore Resort & Marina, Year End Financial Statements, 2003, 2004 & 2005

1.11.3.2 Business Centre

The Business Centre Department is responsible for 0.2% of total hotel revenue and 0.3% of hotel profit. It is responsible for providing all small clerical business services to guests including photocopying, and computer-hosted Internet access. The Westin Bayshore Resort & Marina automated all of its business centre equipment in April 2004 so that all equipment accepts credit card payments and can be used independently by guests on a 24-hour basis. Prior to this, the Business Centre was staffed from 09:00 to 17:00 hours, five days per week. Although The Westin Bayshore Resort & Marina does not earn any significant revenue or profit from the Business Centre, The Westin Bayshore Resort & Marina supports its continued existence because it is considered a required amenity by meeting planners.

1.11.3.3 Guest Laundry

The Guest Laundry Department earns 0.2% of total hotel revenue and less than 0.1% of hotel profit. The department is responsible for providing all dry cleaning and pressing services guests. Valet dry cleaning services are available six days per week on a same day service basis. Pressing service is available 24 hours per day. Although this department does not earn significant revenue or profit for The Westin Bayshore Resort & Marina, it is a required amenity for any luxury hotel and will not be discontinued.

1.11.3.4 Health Club

The Westin Bayshore Resort & Marina's Health Club earns 0.3% of hotel revenue and 0.1% of hotel profit. The department offers guests gym, pool, hot tub and massage services. Prior to 2004 the Health Club memberships were sold to the Bayshore Garden

condominium residences that are adjacent to The Westin Bayshore Resort & Marina. A third party under contract to The Westin Bayshore Resort & Marina previously supplied massage services on-site. However, as of 2005, Health Club memberships to non-hotel guests were discontinued and massages services were moved offsite to a fulltime spa facility. Services in the health club area were reduced in scope because of a decision by The Westin Bayshore Resort & Marina to focus on core guest room and food and beverage activities. The Health Club is a required service for a luxury hotel property and is used as a key selling feature for both corporate and conference clients.

1.11.3.5 Marina

The Marina earns 0.7% of The Westin Bayshore Resort & Marina's revenue and 0.4% of the profit. The marina facility currently consists of a floatplane dock, 4 mooring slips and 400 feet of charter boat moorage space. Prior to 2000, The Westin Bayshore Resort & Marina owned and operated a much larger marina facility that was reduced in size during The Westin Bayshore Resort & Marina renovation. Due to low profit margins, high maintenance and risk factors associated with a Marina operation, The Westin Bayshore Resort & Marina has been extracting itself from this operation during the last five years. The Westin Bayshore Resort & Marina expects to be exiting the marina business completely over the next 18 months.

1.11.3.6 Rent & Other

The Rent and Other Department consists of all The Westin Bayshore Resort & Marina's retail tenants, commissions, miscellaneous income and in-room movies. The Westin Bayshore Resort & Marina has five retail store tenants: Hertz, Essents Gifts,

Snowflake Boutique, Essential Boutique and The Antique Store. The Westin Bayshore Resort & Marina also has four office suites it leases out. Both the retail and office spaces are leased to third parties. The Westin Bayshore Resort & Marina collects commissions on many services sold by hotel staff. These commissions can be from limousine, massage, baby sitting, flower sales and tour services. The Westin Bayshore Resort & Marina considers the Rent & Other Department a high profit, low effort department, because it provides incremental revenue above regular operations, and with no additional labour. The Westin Bayshore Resort & Marina is seeking to increase revenues from this department.

1.11.4 F&B Outlets

The Food & Beverage Department earns 11% of overall revenue and 8% of the gross operating profit. The Food & Beverage Department consists of Currents Restaurant, Sea Wall Bar & Grill, Perks at Bayshore Coffee Shop and in room dining. Since 2003, The Westin Bayshore Resort & Marina has focused on increasing the Food and Beverage Department's profitability. During 2004 The Westin Bayshore Resort & Marina amalgamated the Currents and Sea Wall operations so that only one restaurant is open during each meal period. During 2005, The Westin Bayshore Resort & Marina completed the Six Sigma Menu Simplification project that is expected to further increase the Food & Beverage Outlet profitability. The Department's poor profit performance continues to be a problem area that The Westin Bayshore Resort & Marina is focused on improving.

1.12 Approximate market share

Descriptions of The Westin Bayshore Resort & Marina's guest room, conference service and food and beverage market shares are as follows.

1.12.1 Guest Room Market Share

The Westin Bayshore Resort & Marina considers its competitors are all of the other full service hotels in The City of Vancouver. Based on this definition The Westin Bayshore Resort & Marina's competitors are: The Westin Grand, The Sutton Place Hotel, The Sheraton Wall Centre Hotel, Residence Inn by Marriot, Renaissance Marriott Harbourside Hotel, The Pan Pacific Hotel Vancouver, The Pacific Palisades, The Opus Hotel, The Metropolitan Hotel, The Marriott Pinnacle, Listel Vancouver Hotel, The Hyatt Regency, The Holiday Inn Hotel & Suites, The Fairmont Airport Hotel, Fairmont Hotel Vancouver, The Fairmont Waterfront, The Delta Vancouver Suites Hotel, Crowne Plaza Hotel Georgia and The Coast Plaza Hotel. Collectively these hotels have a total of 7,212 guest rooms.

The Westin Bayshore Resort & Marina's guest room inventory market share is 510 guest rooms, or 7% of Vancouver's 7,212 full service hotel guest room inventory. The Westin Bayshore Resort & Marina's 2004 paid guest room night market share during 2004 was 135,068 paid room nights, or 7% of Vancouver's full service paid, guest room night stays.

1.12.2 Conference Service Market Share

Hotel conference service market share can be measured by comparing like hotels. Based on this definition, The Westin Bayshore Resort & Marina considers its competitors

to be: The Fairmont Hotel Vancouver, The Hyatt Regency Vancouver, The Sheraton Vancouver Wall Centre, The Sutton Place Hotel, The Pan Pacific Hotel Vancouver, The Renaissance Vancouver Hotel Harbourside and The Fairmont Waterfront Hotel.

Collectively, these conference hotels have 4,271 guest rooms.

The Westin Bayshore Resort & Marina's guest room inventory market share is 510 guest rooms, or 12% of Vancouver's 7,212 full service conference hotel guest room inventory. The Westin Bayshore Resort & Marina's 2004 paid room night market share during 2004 was 135,068 paid room nights, or 13% of Vancouver's full service paid conference guest room night stays.

1.12.3 Food & Beverage Outlet Market Share

Tourism Vancouver estimated that in 2003, visitor expenditures on Food and Beverages were \$853,989,613.¹² Therefore assuming that 2004 visitor Food & Beverage expenditures were similar, The Westin Bayshore Resort & Marina's 2004 Food & Beverage Outlet sales of \$4,840,079 represented a market share of approximately 0.005%.

¹² Tourism Vancouver, Tourism Data For Greater Vancouver 2003

2 INDUSTRY ANALYSIS

2.1 Industry Scope

This chapter will focus on the hotel industry within the Greater Vancouver Area and North America. The following paragraphs provide an overview of the hotel industry as it relates to the customer booking process and the changing needs of hotel customers.

Changes in how customers make their guest room reservations have resulted in increased competition between hotels that are located in different cities. In the past, most hotel customers chose their destinations first, followed by their choice of accommodations. This process limited competition between hotels to a local area. However, computer and Internet technologies have enabled customers to simultaneously price out their accommodation and transportation needs and then purchase them both as a complete package. One of the consequences of this change in the process of customer booking is that hotel price now contributes to the customer's choice of destination. The net result of this change is that where previously competition between hotels was limited to a local city, now hotels in different cities are competing against each other. Both transient and group hotel customers use this new process.

Customers are travelling longer distances and with increased frequency. These changes in customer behaviour patterns are forcing hotels on a local and continental level. This fact has provided an opportunity for hotel companies to develop large global hotel networks that can service their customer's diverse accommodation requirements. However this new structure has also meant that customers have grown loyal to a hotel

brand as opposed to a particular hotel property. This change has resulted in hotels competing against each other for customers within their own chains.

2.2 Key Competitors – North America

The Westin Bayshore Resort & Marina's key competitor cities in order of importance are: San Francisco, San Diego, Seattle, Toronto and Montreal¹³. Typically when transient clients are evaluating multiple cities as destinations, they are comparing combinations of price and city attractions. Group clients typically compare a larger basket of comparative factors such as, total destination price, travel time, conference attendee drawing power and venue suitability. When The Westin Bayshore Resort & Marina competes for business against hotels in multiple cities, its competitors can be other hotel chains and other hotels from within Starwood Hotels & Resorts Hotel portfolio. Typically the competing hotels are of a similar quality level as The Westin Bayshore Resort & Marina.

2.3 Key Competitors – City of Vancouver

The key competitors of The Westin Bayshore Resort & Marina are the luxury full service conference hotels within the city. These hotels are: The Sutton Place, The Sheraton Wall Centre Hotel, The Renaissance Marriott Harbourside Hotel, The Pan Pacific Hotel, The Hyatt Regency Vancouver, The Fairmont Hotel Vancouver and The Fairmont Waterfront Hotel. Of these hotels the most significant competitors, as measured by conference space capacity, proximity to the downtown core, proximity to the waterfront, proximity to the convention centre and quality rating are: The Pan Pacific

¹³ Emma Fyfe (Director of Sales & Marketing, The Westin Bayshore Resort & Marina), interviewed by D'Arcy Coon, July 2005

Hotel, The Fairmont Waterfront Hotel and The Fairmont Hotel Vancouver. Each of these hotels is a full service, luxury conference hotels that are capable of hosting similar customers as The Westin Bayshore Resort & Marina. The main differences between these competitors are number of guest rooms, amount of conference space, proximity to the downtown core, proximity to the waterfront, proximity to the city’s convention centre and their AAA quality rating.

Figure 2: The Westin Bayshore Resort & Marina’s Competitor Key Attribute Comparison Matrix

Hotel Name	# Rooms	Conference Space	Downtown Core	Waterfront	Convention Centre Proximity	AAA Quality Rating
Westin Bayshore						
Pan Pacific Hotel						
Fairmont Waterfront						
Fairmont Hotel Vancouver						
Sheraton Wall Centre						
Hyatt Regency						
Renaissance Marriott						
Positive Factor						
Negative Factor						

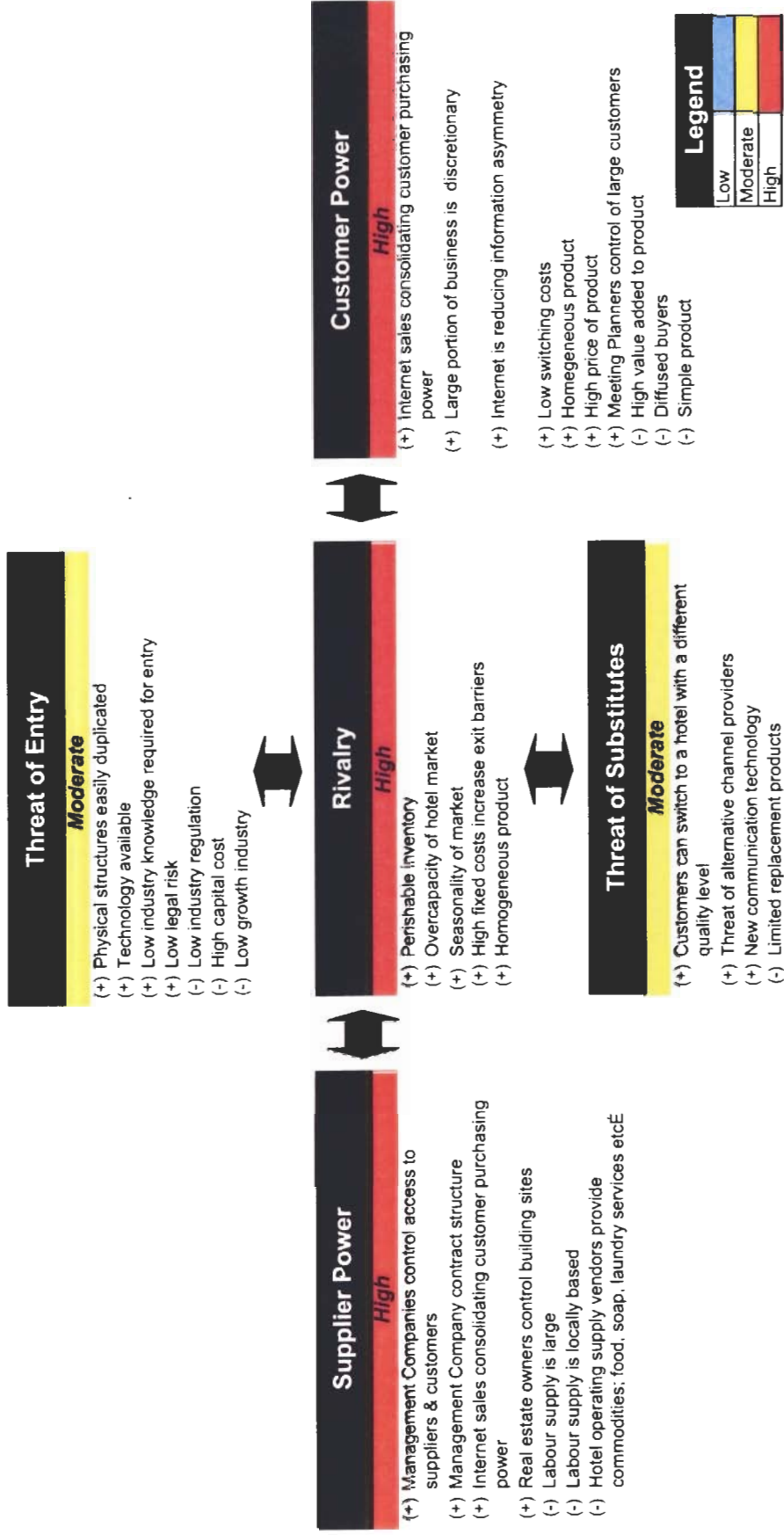
2.4 Five Competitive Forces Factor Analysis

This section of the paper will analyze the five competitive forces of power¹⁴ from two different perspectives, that of Blue Tree Hotels & Resorts (Canada) and that of Starwood Hotels & Resorts. Performing independent analysis on these two components of the hotel industry provides a more detailed and accurate examination of the complex interactions between these two closely connected, yet independent entities of the hotel industry.

¹⁴ Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press, 1985, Page 6

2.4.1 Hotel Owners

Figure 3: The Westin Bayshore Resort & Marina's Five Forces of Power¹⁵



¹⁵ Adapted from Ed Bukszar, "Strategic Management" (EMBA Lecture Series, Simon Fraser University, Vancouver, BC, March 2005 and Michael Porter, "Strategy and the Internet", Harvard Business Review, March 2001, Page 5

2.4.1.1 Supplier Power - High

Greater Vancouver Area hotel industry suppliers have high power. The six principal suppliers that exercise power over the hotel industry are: hotel management companies, Internet reservation companies, real-estate owners, hotel builders, labour and hotel operating supply vendors. The factors that contribute to this high rating are: the management companies control over customers and suppliers; growth of Internet reservation sales volume; real estate owner control of building sites; hotel builders that build only on request; and, the low differentiation between hotel buildings and Internet hotel sales companies that are consolidating customer purchasing power. The factors that decrease supplier power are: the large availability of unskilled labour pool; the limited regional influence of the labour supply; and the fact that hotel operating suppliers provide commodities. The following paragraphs will evaluate why these suppliers have high power, and discuss the potential for power growth of hotel guest room suppliers.

2.4.1.1.1 Hotel Management Companies

Hotel management companies exert strong control over hotel owners because they have seized control of both customers and suppliers from the hotel owners. In addition, management companies have structured their management contracts to prevent hotel owners from exerting any significant influence over customers and suppliers. High power is maintained over owners despite the relative ease with which hotel owners can switch between hotel management companies. The following paragraphs will describe the hotel management company's strong control over hotel owners.

Hotel management companies have seized control of customers and suppliers from hotel owners by implementing procedures and technologies that have gradually

removed the ownership of customers from individual hotels owners. Hotel management companies made this change based on the argument that they could bring additional profit to hotel owners based on their ability to manage hotels more efficiently than hotel owners could do independently. Typically, hotel management companies provide lower costs through the economies of scale that become available to them from consolidating and centralizing the operation of the entire portfolio of hotels under their management.

An example of how a hotel management company can provide lower costs to a hotel under their control is their ability to negotiate lower costs based on their large purchasing volumes. By consolidating the purchasing volume for each of the hotels under their management, a hotel management company is able to obtain better pricing on hotel supplies.

Another way that hotel management companies can provide savings to their managed hotels is their ability to lower the technology costs to hotels in their portfolio. An example of a reduction in technology costs is reducing the price of Internet software applications. As a member of a hotel management company's hotel portfolio, technology costs are spread over all of the hotels within the management portfolio, as opposed to all the costs being allocated to a lone, independent hotel. An example of this is provided by a hotel company's Internet reservations system. Although the development and maintenance costs associated with an Internet reservation system are large, the incremental costs of adding additional hotels to the network are minimal. Thus, by increasing the number of hotels using the Internet reservations system, a hotel management company is able to substantially reduce the costs of the system to any individual hotel.

One of the by-products of hotel management companies' centralization has been the shift in information ownership from the independent hotels to Starwood Hotels & Resorts. In Starwood Hotels & Resort's case a recent example of this shift in information ownership is provided by the installation of its new Galaxy Property Management System. The property management system is the primary computer system of a hotel that allows it to manage and sell its hotel guest room inventory. Starwood Hotels & Resorts owns and operates its own property management system company, Galaxy Computer Systems. As part of its standard Management contract, Starwood Hotels & Resorts requires that all owners install the Galaxy property management system at their properties, and upgrading their systems on an ongoing basis. It makes this demand based on the argument that all hotels within its managed portfolio must use the same technology to reduce operating and training costs. In the past all property management system computer systems were built to allow each hotel to operate independently. The systems housed a large database of past hotel reservations and customers. The property management systems communicated information required to operate the central reservation and loyalty systems on an as needed basis. The new Galaxy Property Management System has a centralized Internet architecture. This new centralized design has relocated the customer and reservation databases from The Westin Bayshore Resort & Marina to Starwood Hotels & Resort's centralized data warehouse. Under this new centralized operating system hotel owners have effectively lost ownership of customer data.

Additionally hotel management companies prevent hotel owners from influencing control over them through the structure of their management contracts. The contracts are

generally made for long periods of time, 10 years or more. In The Westin Bayshore Resort & Marina's case, its contract with Starwood Hotels & Resorts is for 25 years. The fee structure of a hotel management contract provides monthly fees to the hotel management company based on the gross revenue of the hotel, with incentives for meeting specific gross operating targets. The hotel owners retain all hotel profits, or losses. There are no provisions in the contract for penalties against the hotel management company for hotel losses. Generally, the hotel management company assumes no risk and obtains a secure source of future revenues. The absence of any contractual influence and the long contract periods ensure that hotel owners have limited influence over hotel management companies.

Hotel management companies exert strong power over hotel owners despite the fact that the costs of changing hotel management companies are low. The costs of switching hotel management companies are limited in scope and can be implemented rapidly by hotel owners. The costs associated with changing to a new hotel management company are: capital upgrades, technology requirements, associate training and operating materials. Hotel management companies typically have hotel conversion departments that are capable of implementing all the changes required to re-brand a hotel. For instance, using The Westin Bayshore Resort & Marina as an example, Starwood Hotels & Resorts could complete a brand conversion in approximately three weeks, at an approximate cost of \$3,149 CDN per guest room.

Table 5: The Westin Bayshore Resort & Marina's Estimated Brand Change Costs

Assumptions:		
Exchange Rate	\$	1.21
Average wage including benefits	\$	20.25
# of Guest Rooms		510
Calculation:		
Capital Upgrades	\$	2,498
Technology Systems	\$	588
Operational Materials	\$	14
Training	\$	48
Sub total	\$	3,149
# of Guest rooms	* \$	510
Total Hotel Conversion Costs	\$	1,606,045
Conversion Materiality Calculation		
Hotel Conversion Costs	\$	1,606,045
2004 EBITDA	/ \$	9,392,101
		17%

The following is a description of how a potential brand conversion by Starwood Hotels & Resorts of The Westin Bayshore Resort & Marina would occur. Starwood Hotels & Resorts would send a team of brand conversion specialists to the property. If The Westin Bayshore Resort & Marina's quality level were the same as the new brand, The Westin Bayshore Resort & Marina would only require minimal capital investment to bring the property up to standard. The upgrades would likely be limited to purchasing Starwood Hotels & Resort's trademarked Heavenly Bed® and Heavenly Bath® products. These purchases would be completed and delivered to The Westin Bayshore Resort & Marina in less than two months.

In simultaneous action, the conversion team would arrange for the installation of Starwood Hotels & Resort's preferred technology applications into the hotel. Completing the installation of Starwood Hotels & Resort's preferred technology systems is a relatively well-documented procedure that can be completed in less than a month. During the technology installation, Starwood Hotels & Resorts conversion team would begin training associates.

Associate training costs would be limited to the operation of the technology components. While the training of associates on the operation on both the property management and finance systems requires the largest amount of training time, it actually affects the smallest departments of The Westin Bayshore Resort & Marina. The majority of associates require relatively minimal additional training. The small amount of training they would receive would focus on Starwood Hotels & Resort's brand service standards. Extensive retraining of associates would not be required because the operating procedures of most hotel brands are very similar. Starwood Hotels & Resorts conversion team would be capable of completing all of The Westin Bayshore Resort & Marina's conversion training in less than three weeks.

The final task in the property brand conversion is the change-out of hotel operating materials. These operating materials would be the brand specific items such as signage, bath soaps, coffee packets, coasters, paper napkins and uniforms. All of these operating materials can be ordered and delivered in less than three weeks time. All of the required capital upgrades, technology installations, training and materials would be implemented back of house, and without The Westin Bayshore Resort & Marina's customers being aware they were happening. The final brand changeover would occur

during a 24-hour period. The Westin Bayshore Resort & Marina would simply close its books on the chosen business day under its old brand, and immediately re-open them as Starwood Hotels & Resorts brand using the newly installed technology. Hotel employees under the supervision of the conversion team would phase out all of the old operating materials throughout the chosen conversion day. Departing guests would receive two bills, one for the period under the old management company and another for Starwood Hotels & Resorts portion of their stay. From a guest's perspective, The Westin Bayshore Resort & Marina would appear to have been converted to a Starwood Hotels & Resorts brand overnight. From the owner's perspective, the hotel conversion would likely be completed in roughly a month, from the time they signed the contract.

Another factor that increases hotel owner's power over Starwood Hotels & Resorts is the homogeneity of the product offerings amongst hotel management companies. A hotel management company's primary product offerings are the methods by which it manages a hotel and the organizational structure that it places in a hotel. The methods and organizational structures of most hotels, including those of hotel management companies, are similar. The industry uses a traditional pyramid shaped management tree that is headed by a General Manager. Typically, this organizational tree is divided into two divisions, Rooms and Food & Beverage Divisions. Within these divisions there are several other standard departments. Although the names of the departments can change from hotel to hotel, the general purpose of the departments and their placement within the hotel's organization is similar between hotels. There is usually little difference between any two different hotel's organizational structures, including those run by hotel management companies. This similarity between hotel organizational

structures indicates product homogeneity between hotel management company's product offerings. The similarity of the product offerings between management companies makes it easier for hotel owners to change between them, and therefore reduces hotel management companies power.

Another factor that decreases hotel management company power is the large number of hotel management companies that hotel owners can choose from. In 2003, there were more than 253 hotel management companies competing in the North American hotel management market.¹⁶ This large number of hotel management companies competing against each other for management contracts results in increased competition in the hotel management company market. The existence of strong competition in the hotel management company market is a factor that decreases the power of the management companies.

The implementation of centralized procedures and technology, as well as the structure of Starwood Hotels & Resort's contracts, has allowed it to systematically remove customer ownership from The Westin Bayshore Resort & Marina's owners. Although The Westin Bayshore Resort & Marina's owners could attempt to reduce Starwood Hotels & Resort's power over them by threatening to convert the property to another brand, the long lifespan of the hotel contract prevents them from doing this. The Westin Bayshore Resort & Marina owner's inability to exert any power, combined with their loss of control over procedures and technology, make Starwood Hotels & Resorts a powerful supplier.

¹⁶ Hotel and Motel Manager Magazine, "Top Hotel Companies", September 15, 2003, <http://www.hotelmotel.com/hotelmotel/article/articleDetail.jsp?id=69708>

2.4.1.1.2 Internet Reservation Companies

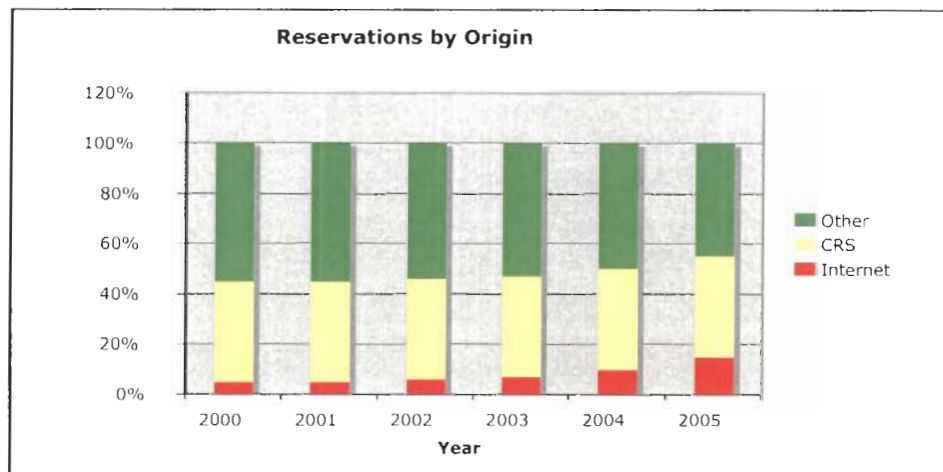
Internet reservation companies currently exercise limited power over The Westin Bayshore Resort & Marina, despite the growth in Internet reservations use. Nevertheless, due to their rising influence, Internet reservation companies do pose a potential threat to The Westin Bayshore Resort & Marina. The following paragraphs will describe the growth of the Internet based reservation channel, and why Internet reservation companies pose an increasing threat to The Westin Bayshore Resort & Marina.

The quantity of Internet originating reservations sources has been growing at an accelerating rate since 2000. In 2000 Internet-based reservations represented less than 5% of total reservations, but have grown to 15% in 2005. Originally, the hotel industry remained committed to their traditional phone-based central reservation and in-house property reservations systems and was slow to adopt Internet-based reservation systems. This provided an opportunity for new third party companies to enter the market and start their own Internet reservation companies that serviced multiple hotel brands.

The Westin Bayshore Resort & Marina, as well as the entire hotel industry considered these Internet companies traditional wholesale guest room purchasers. The Internet-based companies were able to use the Internet to create several new products for customers based on a low cost, high volume strategy. Companies such as Orbitz and Travelocity emerged with products that were capable of quickly bundling accommodation and travel prices from multiple suppliers and providing them to their customers. Other companies created on-line travel auction-sites for hotel and airline products.

The explosive growth in wholesale guest room purchases by these new suppliers began to increase their power over the hotel industry. By late 2003 and 2004, Starwood Hotels & Resorts along with the rest of the industry began to realize that if the growth in Internet third party hotel channels continued, they faced the risk of losing customer ownership to these new competitors. Starwood Hotels & Resorts figured that the worst-case scenario would result in its customers becoming loyal to the Internet sales companies as opposed to Starwood Hotels & Resorts, and its hotels would be forced to compete exclusively on price.

Figure 4: The Westin Bayshore Resort & Marina's Multi Year Reservations by Origin



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To defend against the new Internet competitors Starwood Hotels & Resorts launched an offensive strategy designed to force customers to use its own branded Internet sales site, thereby reducing its reliance on third party Internet sales sights. Starwood Hotels & Resorts invested significant resources into upgrading its own branded Internet hotel room sales web site. It also implemented Starwood Hotels & Resorts Best Rate Guarantee, and forced all hotels in its chain to adhere to it. The Best Rate

¹⁷ The Westin Bayshore Resort & Marina, DORM Reservation Origin Reports 2000 - 2005

Guarantee obligates all Starwood Hotels & Resorts hotels to provide the lowest published price for their hotel rooms on Starwood Hotels & Resorts hotel web site. Any hotel that does not comply with the guarantee is forced to provide the lower priced Internet rate to the customer. The Best Rate Guarantee strategy provided instant relief against the Internet sales companies and forced Starwood Hotels & Resort's customers back to its own Internet reservation booking sites.

Starwood Hotels & Resort's strategy of forcing customers to purchase guest rooms from its own branded Internet web sites successfully prevented third party Internet sales companies from increasing their power. Although Starwood Hotels & Resorts continued to use these companies to distribute its guest rooms, it is no longer forced to do so through the use of a low price strategy. In conclusion, even though Starwood Hotels & Resorts initially defended itself against Internet hotel sales companies, they do continue to remain a threat to all hotels, including The Westin Bayshore Resort & Marina.

2.4.1.1.3 Real Estate Owners

Landowners exercise strong power in the Greater Vancouver Area hotel industry because of the importance of location to the success of a hotel. Hotels in desirable locations enjoy higher occupancy and room rates than hotels in non-desirable locations. In Vancouver, the prime determinant of desirability is a hotels proximity to the downtown core. In fact, being located even a short distance away from the downtown core can have disproportionately large effect on a hotels success. For example, a distance of only 10 blocks from the downtown core of Vancouver, equates to almost a \$20.00

reduction in average guest room rate.¹⁸ This fact results in high competition amongst hotel companies for the key locations within the city. The strong competition for prime hotel locations results in high supplier power for the landowners. However, despite the power held by landowners, hotel companies always have the right to refuse to purchase land from them. As well, landowners typically own limited land parcels in any given city and are, therefore, not considered a concentrated group. Despite the high influencing power of landowners, their limited scope and the right of refusal by hotel companies relegate them to a low supplier power rating.

2.4.1.1.4 Labour Supply

Labour supply for the Greater Vancouver Hotel Area is considered weak due to three main reasons. First there is an abundant supply of unskilled labour. Second, the seasonal nature of hotel work contributes to a transient labour pool. Third, there is a limited influence of local labour unions in the area.

Most hotel positions require only basic college or high school training. Typically, the only positions in a hotel that require a university degree are management positions. The hotel industry's ability to draw employees from Vancouver's large unskilled labour pool reduces competition between hotels for the prospective employees, thereby reducing their influence over the industry.

The seasonal nature of the hotel industry also reduces labour power. This is due to the short annual window of opportunity in which employees could threaten to interrupt hotel business, and cause the hotel company financial hardship. In The Westin Bayshore Resort & Marina's case, only work stoppages that occur during the months of June, July

¹⁸ The Rubicon Group; Competitive Rate Report; Rates by Date; The 27 of Jan to 27 April 2005

or August would negatively impact it. Work interruptions outside of this time period would have a limited impact on The Westin Bayshore Resort & Marina's profit because of the marginal profit margins that occur during these times. Another reason contributing to the weak rating of the local labour force is that their influence is limited to eight downtown upper-upscale hotels, which represents only 4,200 or 30% of Downtown Vancouver's 13,277 room nights.¹⁹

2.4.1.1.5 Operating Supply Vendors

Operating suppliers to the hotel industry are also considered weak. Operating supplies are defined as the goods a hotel requires to run the day-to-day operations of the hotel. Examples of these items include laundry, guest room amenities, cleaning supplies and food. Typically these items are readily available from a large number of different suppliers. This bulk availability of suppliers reduces their power

2.4.1.1.6 Supplier Affect on Rivalry.

High supplier power has no effect on rivalry for hotel owners who have hired hotel management companies to run their facilities. The limited affect on rivalry is because hotel owners have made the hotel management companies responsible for their supplier relationships; and hotel owners are not subject to high power from these suppliers. Supplier power over hotel management companies will be explained later in this chapter.

High supplier power of Internet Reservation Companies does have a strong effect on independent hotel owners. Independent hotel owners have little influence over these suppliers and are therefore forced to compete on price with these suppliers. This forces a

¹⁹ Panell Ker Forster Consulting Inc., "The Westin Bayshore Resort & Marina Month End STAR Report", January 2004

highly rivalry situation in which independent hotel owners are forced to reduce their guest room rates in order to secure Internet Company reservations.

2.4.1.2 Customer Power - High

Customers of Greater Vancouver Area hotels are considered to have high power. The factors that contribute to high customer power are: the strong control that third meeting planners have over large conference hotel customers; customer consolidation caused by the Internet; the discretionary nature of hotel product purchases; the reduction of information asymmetry caused by the emergency of the Internet; low switching costs and, a homogenous product. The factors that reduce customer power are the value that hotel companies add to their products.

2.4.1.2.1 Meeting Planners

Meeting planners increase customer power due to the large business volumes they control. Meeting planners are specialists, who are hired by companies to plan meetings and conferences. Meeting planning companies range from single person shops to large international companies, such as Maritz Travel or Conferon, that control millions of dollars worth of conference purchases. The Westin Bayshore Resort & Marina relies on this meeting based market segment for its primary guest room supply, and therefore devotes a large quantity of its sales and marketing resources to managing relationships with meeting planners.

Meeting planners typically belong to one of two categories: a dedicated professional or a part time meeting planner. Professional meeting planners specialize in

planning meetings for a living. They can work as part of a meeting-planning firm, or as a full time meeting planner within a company's meeting planning department. It is currently more common for meeting planners to work in specialty meeting planner firms as many companies have contracted out their in-house meeting planning and closed their internal meeting planning departments. Part-time meeting planners are generally people who work within a company and have accepted meeting planning as a portion of their regular job responsibilities. Often these part-time meeting planners work as assistants to Vice Presidents of Sales or other high-ranking company officials.

Meeting planners are key customers because they either choose or influence the choice of a meeting location. A meeting planner can recommend if a hotel can qualify for inclusion on a request for proposal, or if a meeting or conference will return to a hotel for repeat business.

Although meeting planners have increased supplier power due to the large business volumes of business they control, they remain a dispersed group with no dominant player in the industry. This disbursement has prevented any one firm, or collection of firms from exercising control over the hotel industry.

2.4.1.2.2 Miscellaneous Factors

The high value-added to hotel products is a factor that decreases customer power over the hotel industry. It does this by motivating customers to choose hotel products because of the additional services that are included with them. Additional value is added to hotel guest rooms by including a wide array of additional services, such as housekeeping, a bell person, food and concierge services. These services are not

necessarily included by other competing hotel companies and thereby provide The Westin Bayshore Resort & Marina with a differentiated product offering.

The diffused nature of hotel guest room purchases also is a factor that decreases customer power. Despite the emergence of the Internet and the buyer consolidation that the Internet is facilitating, the wholesale market segment to which it contributes represents only 4% of The Westin Bayshore Resort & Marina's overall guest room revenue. Non-Internet originating customers comprise the remaining 96% of hotel guest room purchases. These hotel room buyers continue to make their purchases, or negotiate with The Westin Bayshore Resort & Marina, on an individual basis and as such are not able to leverage the volume pricing discounts that are available to large consolidated group room purchasers.

The consolidation of previously diffused hotel room buyers on Internet hotel room sales sites has increased customer power. Prior to the emergence of Internet hotel sales sites such as Travelocity, Orbitz and Priceline.com, hotel customers were considered to be a dispersed group with low group purchasing power. The majority of wholesale guest room purchases were limited to travel agents. The Internet facilitated the emergence of a new group of wholesale hotel companies that were able to capture and consolidate a large amount of hotel transient guest room business. These new Internet wholesale companies leveraged their business volumes to obtain reduced hotel room rates. Hotel companies remain extremely concerned that their customers are beginning to display loyalty towards Internet hotel wholesale companies, as opposed to loyalty to their hotel.

The elimination of information asymmetry caused by the Internet is another factor that contributes to high customer power. Prior to the emergence of the Internet, hotel customers had limited knowledge of, and access to, hotel prices. In order to obtain competitive pricing from hotels they were forced to call hotels individually and inquire about hotel guest rates. Hotel companies also designed a series of reservation telephone protocols that were designed to limit the amount of rate information that was provided to prospective hotel customers. Internet technology has eroded the information safeguards that were erected by the hotel industry. Customers are now able to obtain competitive hotel price quotes from around the world in seconds. In addition they are able to use this new information to infer hotel occupancy levels, allowing them to use this information to leverage the existence of perishable of guest room inventory nights to their advantage. The hotel industry's ability to protect its rate and occupancy information has been eroded by the emergence of the Internet.

The discretionary nature of a guest room purchase is another factor that increases customer power. Unlike other products, consumers can avoid many hotel purchases. While it is true that some of The Westin Bayshore Resort & Marina's corporate business customers cannot avoid their hotel purchases, the non-discretionary business segments are only 11% of The Westin Bayshore Resort & Marina's 2004 guest room volume. The remaining 89% of The Westin Bayshore Resort & Marina's revenue is non-corporate transient and group customers, for whom guest room purchases are discretionary. Although other hotels may have a larger non-discretionary room base, the hotel industry is, general, heavily exposed to discretionary customers. This fact places the entire hotel industry at the mercy of its customers and their willingness to purchase hotel products.

The occurrence of the 9/11 World Trade Centre tragedy and the 2003 SARS crisis in Toronto has proven that customers can cancel room night purchases indefinitely. Both of these cities experienced radical, prolonged drops in hotel occupancy levels following these incidents. Marg Sweeney describes the 9/11 impact on the American hotel industry in 15 major U.S. cities when she says,

“Smith Travel reports that occupancy levels for these 15 markets dropped to a weekly average of 52.1% for the week of Sept. 16 through 22, down 26.2% from the same week in the previous year.”²⁰

During and after the SARS crisis in Toronto hotel occupancy rates dropped 62% from the same time in the previous year.²¹

Low switching costs associated with purchasing hotel room nights is a factor that increases customer power. There are virtually no costs to consumers who choose to switch from one hotel brand to another. Unlike manufactured products, which may have proprietary components that force customers to return to their brand, hotel customers are completely free to try other hotel products. The industry has unsuccessfully attempted to increase switching costs by introducing loyalty point systems that attempt to keep customers with the hotel brand. However, since all of the major hotel companies have adopted similar loyalty programs, the end result has been most customers can join several different hotel loyalty programs and avoid the switching costs.

Yet another factor that contributes to the hotel industry’s high customer power is that within a competitive hotel segment, hotel rooms are essentially a homogeneous product. The hotel industry is divided into a variety of segments that are determined by

²⁰ Mark Sweeney, “Slow Recovery at the Inn”, National Real Estate Investor, Atlanta, August 2002. Vol. 44, Issue 8; page 35

²¹ *ibid*

quality levels. The hotel segment names are economy, moderate, upscale and upper upscale. Within each of these segments there are numerous hotel companies to choose from. Marriot, Hilton, Hyatt, Doubletree, Wyndham and Fairmont are just some of the competitors within the upper-upscale hotel category. Although the hotel industry has attempted to differentiate its product based on physical and service quality, a hotel room remains comprised of a bed and bathroom with a roof overhead. As with other simple products, hotel customers have no barriers to prevent them from switching between different hotel companies.

The strong control over large customers by third party vendors is another factor that contributes to high customer power. Within the hotel industry, conference clients make some of the largest purchases. Conference clients purchase large quantities of hotel services to in order to host conferences for different groups. Professional meeting planners are usually employed as agents of a conference client to organize their conferences. Although in the past many meeting planners worked independently or in small groups, more frequently they belong to large meeting planning firms such as Maritz Travel or Conferon. Meeting planners typically make conference city, venue, itinerary, hotel, food and beverage and entertainment recommendations to their clients. Due to their large influence over their customers' hotel product purchasing decisions, meeting planners are considered key decision-makers by hotels. Hotel companies have also realized that the trend of meeting planners working at large specialty firms has removed them even further from the actual conference purchaser and the hotel company's control of their customers.

Table 6: The Westin Bayshore Resort & Marina's 2004 Non-Discretionary Market Segment Analysis

Market	
TMC Consortia	\$553,814
Corporate Volume LRA	\$961,569
Corporate Volume NLRA	\$693,637
Government	\$398,737
Contract Airline	\$43,927
Total	\$2,651,684
Total Non Discretionary Market Segments	\$2,651,684
All Market Segments	/ \$24,250,344
Non Discretionary Market Segment Percentage	11%

22

2.4.1.2.3 Customer Power Affect on Rivalry

The seasonal demand pattern associated with the Vancouver Hotel industry provides customers with high power and contributes to increased rivalry. Although the Vancouver hotel industry goes through seasonal periods of over and under supply, the over supply period is the largest portion. The persistence of the oversupplied hotel market in the forces hotel's to compete against each other on price.

Another factor that contributes to increased rivalry between hotel owners is the homogeneous product. Customer in the hotel perceive hotels within the same quality categories as the same, and are therefore willing to switch between them at will. The absence of differentiation between hotels of the same quality level forces hotel owners to compete on price.

Decreasing information asymmetry also contributes to increased rivalry between hotel owners. Prior to the emergence of the Internet, hotel customers had a limited ability to investigate hotel pricing and occupancy information. The Internet has provided them

²² The Westin Bayshore Resort & Marina, Year End Financial Statements, 2004

with easy access to hotel guest room rates and hotel occupancy information. Hotel customers, empowered with hotel rate and occupancy information are able to use this information to increase their bargaining leverage against the hotel owners. Armed with new information, hotel customers are able to seek out lower priced hotel rooms. In response hotel owners are forced to compete against each other on price, yet again resulting in increased rivalry between hotel owners.

2.4.1.3 Threat of Entry - Moderate

The Greater Vancouver Area hotel industry has a moderate threat of entry from new competition. The primary reasons for the moderate threat of entry assessment are: the physical structure of a hotel is easily duplicated; hotel infrastructure technology can be readily purchased; low industry knowledge is required to enter the hotel market; low legal risks are associated with the industry; and, there is low industry regulation. Factors that contribute to lowering the threat of entry are the high capital investment costs associated with starting a hotel and low market growth.

The threat of entry into the hotel market is increased by the ability of investors to easily duplicate hotel buildings, the industry's primary product. Hotels are essentially apartment buildings that are used to house short-term tenants. The building technology for a hotel is essentially the same as any other building. The building plans can be purchased from any architectural firm capable of designing apartment buildings and any qualified builder can build them. There are no building design, or construction trademark or patent restrictions that prevent against building design duplication.

The ability to readily purchase hotel technology infrastructure increases the threat of entry from competitors. Hotel technology infrastructure consists of key technology

systems that run the majority of hotel functions. The two common technology systems are the property management system and the reservation system. New or prospective hotel owners can purchase these technology systems from a variety of different suppliers. The widespread availability of these technology systems increases the threat of entry into the hotel industry by competitors.

The threat of entry into the hotel market is increased by low legal risks that are associated with the hotel industry. Hotel products are considered a relatively benign product, not subject to any major legal risks. Unlike the auto industry or medical industries that have highly technical products, which could harm, maim or kill their customers, the hotel industry is perceived by investors to be a relatively simple and safe product that has low legal risks associated with it.

Another factor that increases the threat of entry into the hotel market is low regulation within the industry. As discussed previously, hotel products are relatively benign, safe products and as such are not generally subject to any significant government regulation. The majority of the regulations within the industry surround fire life and safety concerns that apply to the physical building structure. These laws are very similar to the laws that would apply to any other commercial apartment building and are well understood by the market. The absence of significant government regulations, as well as the familiarity with the existing regulations contributes to the increased threat of entry into the hotel industry.

One of the variables that mitigate the threat of entry of new hotels into the Greater Vancouver Hotel industry is the high capital investment that is required to build a hotel. High capital investment is required for several reasons. First, a hotel's geographic

location is one of the primary determinants of a hotel's success. Hotel companies pay price premiums to secure hotel building sites that are located in the most sought after locations within the city. Another variable that mitigates the threat of entry into the hotel industry are the high costs of construction associated with building a hotel. Building costs are currently estimated at more than \$200,000 per guest room key in the downtown Vancouver area.²³ In addition hotel building costs increase with respect to the quality of the hotel product that is chosen. The high costs associated with building hotels prevent new entrants from easily entering the hotel market.

The slow growth of the hotel market is another factor that contributes to a lower threat of entry into the market. In the Greater Vancouver hotel area the total spending by overnight visitors from 1998 to 2004 grew by only 6% per year, an average increase of only 1.2% per year. The increase in spending has not in kept pace with the growth in hotel guest room inventory, which grew by a total of 9% over the same time period. The net result has been a decrease in hotel occupancy rates from 69% in 1998 to 62% in 2003, a decrease of 10%. Similarly, the city's average room rates decreased from \$120.31 in 1998 to \$113.47 in 2003, a 6% drop.²⁴ The negative growth in occupancy and average rates indicate low overall growth of the City of Vancouver's hotel market.

²³ Bob Rennie (CEO), Rennie Marketing Group, interview by Starwood Capital Group LLC, April 2005

²⁴ Panell Ker Forster Consulting Inc., "The Westin Bayshore Resort & Marina Month End STAR Report", January 2004.

2.4.1.3.1 Threat of Entry Affect on Rivalry

There is no significant affect on rivalry resulting from the moderate threat of entry associated with the hotel owner portions of the hotel industry. Although the low barriers to entry into the industry increase the threat of rivalry, it is moderated by the high knowledge required to operate hotel companies.

2.4.1.4 Threat of Substitutes - Moderate

There is a moderate threat of substitution for other products for customers of the Greater Vancouver Area hotel industry. Factors that increase the threat of substitutes are the ability of customers to choose a different hotel of a different quality level and the emergence of new communication technology that eliminates the need for travel. Factors that decrease the threat of substitution are the limited replacement products for hotels. The following paragraphs contain the arguments for the moderate threat of substitutes.

The ability of customers to choose hotels from a wide spectrum of quality levels is a type of substitution. For instance, if a customer is committed to visiting Vancouver but has a fixed budget, they can choose to stay at a cheaper hotel with a lower quality rating in order to meet their budget. In this way customers can easily substitute between hotels of different quality levels as a method of meeting their budgetary restrictions. The likelihood of customers to exhibit this substitution behaviour also increases during poor economic times when discretionary income is reduced.

A newly emerging substitute to guest room nights is new communication technology. The proliferation of new, inexpensive and media rich communication

technologies such as, Internet video conferencing, have the potential to be a major substitute product to hotel stays. Two of the hotel industry's key customer groups are corporate and group meeting clients. The emergence of these new communication tools could allow these customers to forego in-person meetings. In this way, new communication technology could reduce guest room night purchases and therefore be considered as a new emerging substitute product. The rapid growth and improvement of these technologies warrant a moderate threat to substitution rating.

A factor that reduces the threat of substitution is the limited products currently available as substitutes for hotel guest rooms. Substitute products for hotel guest rooms include accommodation alternatives such as, time-share condominiums, bed and breakfast establishments, camping and recreational vehicle facilities. Although they can be considered substitute products, hotel customers typically cannot use these products interchangeably.

Although time-share condominiums would appear at first glance to be a substitute product, they are actually viewed by the hotel industry as a complementary product that can increase earnings for a hotel company. Hotel companies have learned that selling time-share units in their hotels allows them to earn additional revenue through the sale of the unit and the ongoing maintenance fees. They are also able to use the time-share guest rooms as hotel inventory when the units are vacant and share the revenues with owners.

Bed & Breakfast suppliers do not pose a serious threat of substitution because of the small amount of overall guest room inventory they represent. In the entire Vancouver area, there are only 66 Bed and Breakfast businesses listed in the Vancouver phonebook, and at a liberal amount of 10 guest rooms each, this would extend to a total inventory of

660 Bed and Breakfast guest rooms. 660 Bed and Breakfast guest rooms represent less than 1% of Vancouver's 7,212 rooms of hotel guest room inventory.

With respect to camping and recreational vehicles, these options require significant lifestyle choices that would only apply to a small portion of the leisure hotel segment.

Based on the limited availability of substitutes available to hotel customers, there does not appear to be any significant substitutes currently available to hotel guest room purchasers.

2.4.1.4.1 Threat of Substitutes Affect on Rivalry

The moderate threat of substitutes has no significant affect on rivalry between hotel owners.

2.4.1.5 Rivalry - High

The Greater Vancouver Area hotel industry has high rivalry. The high rivalry is caused by the existence of price competition, perishable inventory, high fixed costs that increase exit barriers, seasonality of the Vancouver hotel market and an oversupply of guest room inventory.

A guest room night is a perishable item, and as such, contributes to the emergence of high rivalry within the hotel industry. A guest room has a lifespan of only one night. It cannot be stored for future use either as a whole product or in components as manufactured items can. The perishable nature of guest room nights makes hotel companies highly motivated to sell their room nights regardless of price. Thus, the perishable nature of room nights results in intensive rivalry.

Hotel companies of similar quality levels compete on guest room prices, a fact that increases the threat of rivalry within the industry. Price competition occurs when guests perceive a product as homogeneous. Hotels are categorized into a series of well-known quality levels that are considered to be industry standards. Within these product categories, customers perceive hotel products to be homogeneous. From the guest perspective there is no difference between the Waterfront Centre Hotel and The Westin Bayshore Resort & Marina, when they are both recognised as upper upscale hotels. This dilemma forces hotel companies to compete on a price basis resulting in intense rivalry

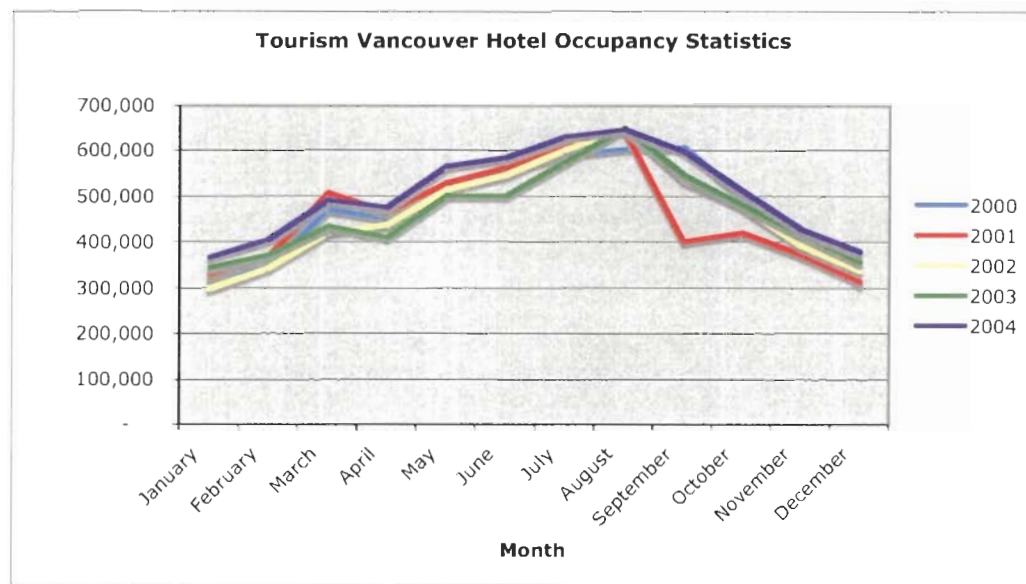
Overcapacity of guest room inventory also increases the rivalry between hotel companies. Due to the long lead times required to build hotels, the growth of the supply of hotel rooms is typically cyclical with long periods of oversupply that lead into shorter periods of under supply. In the Greater Vancouver Area the 2004 annual hotel occupancy rate was 66.6%,²⁵ leaving room for occupancy growth within the area.

The Vancouver hotel guest room demand is seasonal and therefore contributes to the increased rivalry within the industry. Vancouver's hotel room night demand peaks during the summer months of July, August and September, and declines throughout the remainder of the year. This demand pattern subjects the local hotel industry to seasonal periods of over and under guest room supply. The over supply period is the longest portion and therefore subjects the hotel industry to prolonged periods of intense price competition. The seasonality effect is cyclical; over and under supply of guest rooms that the Vancouver hotel industry is constantly subjected to, contributes to the element of risk that lowers the overall attractiveness of the Vancouver hotel industry. The seasonality of

²⁵ HVS International; "Canadian Outlook"; December 2004, <http://www.hvsinternational.com/Publications/>

guest room demand also requires The Westin Bayshore Resort & Marina to earn more than 80% of its profit in only six months of the year. During the remaining months, The Westin Bayshore Resort & Marina is motivated by the desire to reduce profit erosion. This shift in focus drives The Westin Bayshore Resort & Marina to compete on a price basis during the non-peak season, which results in increased rivalry among its competitors.

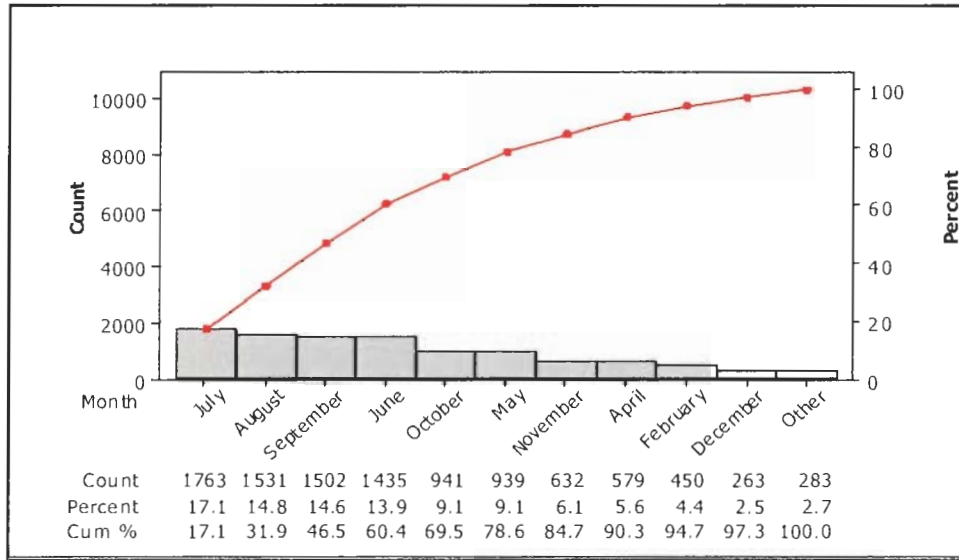
Figure 5: Tourism Vancouver Hotel Occupancy Statistics



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²⁶ Tourism Vancouver, Marketing Research Department, OTB Update, 2005

Figure 6: Pareto Chart of The Westin Bayshore Resort & Marina's 2004 EBITDA by Month



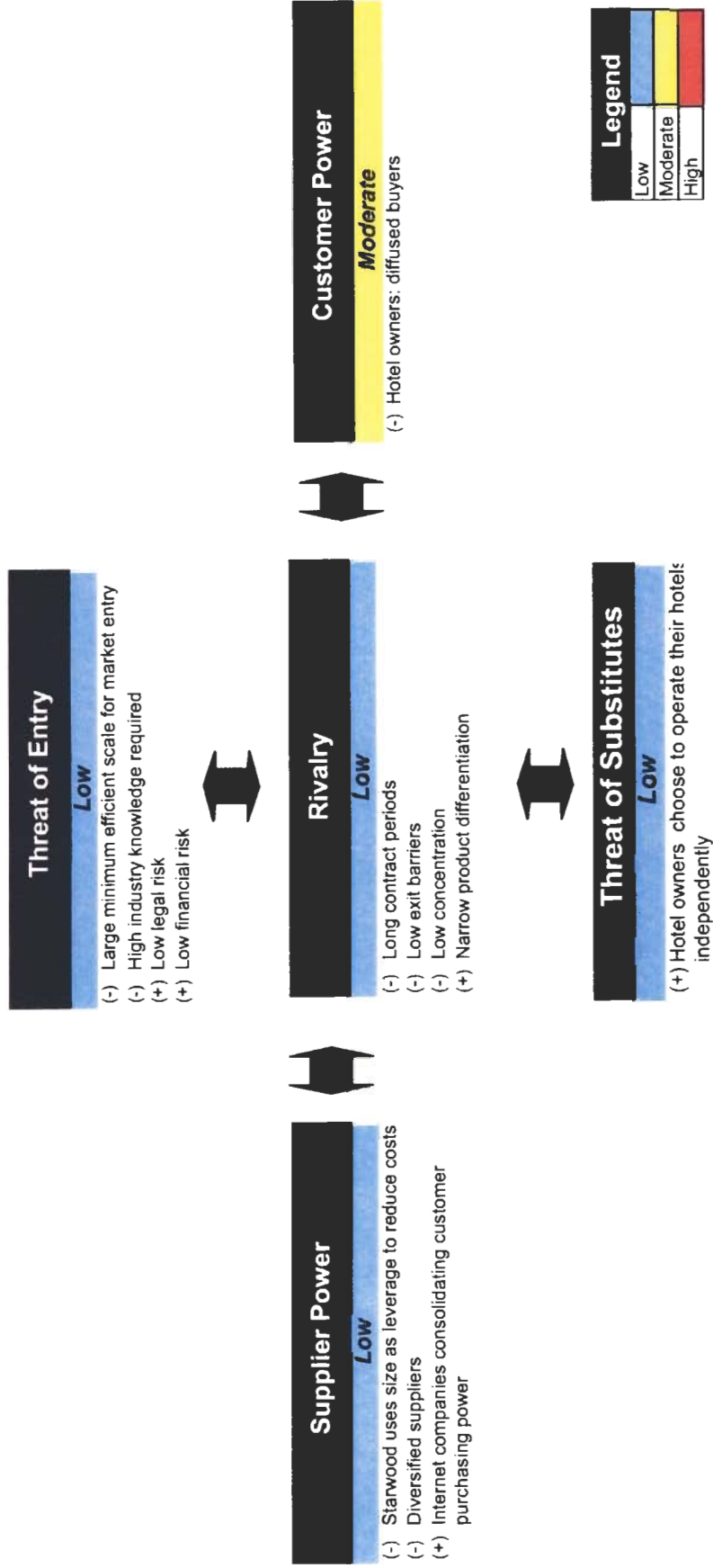
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Another factor that increases the threat of rivalry is the high fixed costs associated with entering the hotel industry. These high fixed costs increase the costs associated with exiting the hotel industry increase the likelihood that hotel companies will compete against each other vigorously on price. Hotel owners are willing to compete on price because the costs of exiting costs are so high price competition is a more cost effective strategy. The large exit costs associated with the hotel industry lead to a high threat of rivalry in the hotel industry.

²⁷ The Westin Bayshore Resort & Marina, Year End Financial Statements, 2004

2.4.2 Hotel Management Company

Figure 7: Starwood Hotels & Resort's Five Forces of Power²⁸



²⁸ Adapted from Ed Bukzar, "Strategic Management" (EMBA Lecture Series, Simon Fraser University, Vancouver, BC, March 2005 and Michael Porter, "Strategy and the Internet", *Harvard Business Review*, March 2001, Page 5

2.4.2.1.1 Hotel Owners & Hotel Management Company Power Imbalance

The power imbalance between hotel owners and hotel management companies is caused by the emergence of a small number of large, dominant hotel management companies, and the hotel owner's demands for upfront capital investments into their hotel properties in exchange for management contracts. The high costs of these upfront contract costs limit the number of management companies that are able to compete for management contracts. As a result, in exchange for the upfront investment funds, the successful hotel management companies are able to extract more favourable management fee terms from the owners. Highly fragmented hotel owners who are unable to exercise any collective control over the hotel management companies further exacerbate the power imbalance between the hotel owners and management companies.

2.4.2.2 Supplier Power – Low

Supplier power over the hotel management industry is considered low. The factors that contribute to this low rating are Starwood Hotels & Resort's ability to leverage its size to reduce costs and its diversified suppliers.

As a hotel management company, Starwood Hotels & Resorts has been able to consolidate the purchasing volume of many small individual hotel purchases into large consolidated purchase blocks. This reduces supplier power. The consolidation of purchases has allowed Starwood Hotels & Resorts to force suppliers to provide better pricing in return for access to its large purchasing volume. Starwood Hotels & Resorts has effectively used this strategy with all its suppliers. Two examples of Starwood Hotels & Resort's use of the volume purchasing strategy are its national contracts with

Hunter Amenities for guest room supplies and The SYSCO Corporation for food.

Starwood Hotels & Resorts has found in some cases that its consolidated volume has enabled it to purchase the supplier. Such was the case with Starwood Hotels & Resort's purchase of GEAC Computer in April of 2001. Therefore Management Company's ability to leverage its volume and force suppliers to provide lower pricing has lowered supplier power. In addition, Starwood Hotels & Resorts has been able to successfully use the threat of purchasing suppliers to further reduce supplier power.

Another factor that reduces supplier power is the fact that Starwood Hotels & Resort's suppliers are a diverse group. Starwood Hotels & Resort's suppliers provide a wide assortment of goods ranging from house furnishings, food, soap, bedding to vehicles. To date, none of Starwood Hotels & Resort's suppliers have been able to obtain control of a significant assortment of Starwood Hotels & Resort's supplier goods. Hotel industry suppliers remain a diverse group, unable to leverage any noticeable control over Starwood Hotels & Resorts.

2.4.2.2.1 Supplier Power Affect on Rivalry

The low supplier power over hotel management companies results in low rivalry between hotel management companies. The low rivalry stems from the ability of hotel management customers to source their goods from a diverse group of suppliers. Having the ability to source supplies from a wide variety of suppliers prevents the hotel management companies from ever needing to actively compete against each other for materials, which in turn results in low rivalry.

2.4.2.3 Customer Power – Moderate

Customer power over hotel management companies is moderate, as opposed to the high power customers hold against hotel owners. The factors that contribute to moderate customer power are the same factors that affect hotel owners, but the overall effect against hotel management companies is not as severe. The factors of Internet sales companies consolidating customer purchasing power, discretionary guest purchases, the removal of internet asymmetry, low switching costs associated with hotel companies and the strong influence of Meeting Planners also contribute to increased customer power against hotel management companies. Factors that decrease customer power against hotel management companies are the high value-added to the product, diffused customers and the integration of hotel management company's owned and managed hotel portfolios. The following paragraphs will describe these factors.

One non-traditional group of suppliers that has achieved a measure of control over Starwood Hotels & Resorts are Internet reservation companies. Although Internet reservation companies have strong power over individual hotel owners, they only exert moderate power on Starwood Hotels & Resorts. Internet reservation companies have successfully consolidated individual transient customers into larger purchasing groups. Their ability to control large volumes of hotel guest room purchases has forced hotels and hotel management companies to negotiate pricing with Internet companies for access to what were previously their own customers. In addition, Internet hotel sales companies present hotel products as homogenous offerings, thereby forcing hotels to compete against each other on price. Independent hotel owners have weak influence on this large and growing supplier.

However, Starwood Hotels & Resorts has been able to use its size and control over individual hotel owners to defend against the Internet reservation companies. It has done this by implementing Starwood Hotels & Resort's Best Rate Guarantee program. The Best Rate Guarantee program as was previously discussed, successfully defended owners from the threat against them by Internet reservation companies. Therefore, although Internet sales companies posed a large threat against hotel owners, the threat against Starwood Hotels & Resorts was reduced by its ability to use its size and control of hotel owners to mitigate this threat. The net result is that Internet sales companies have low power over Starwood Hotels & Resorts.

As with hotel owners, hotel management companies are also exposed to the high customer power that is caused by the discretionary nature of hotel products. Starwood Hotels & Resorts also experiences the same conditions that hotel owners do as described in the hotel owner portion of this chapter. However Starwood Hotels & Resort's multi-national business model reduces the company's exposure to this factor. In the event that an economic crisis or other event affects one region or country within its operation, Starwood Hotels & Resorts can rely on the continued performance of its operations in regions or countries that were not affected by the crisis or event. Such was the case with the 2001 SARS crisis. Although eastern Canadian markets were decimated, the crisis was contained to this region and did not affect areas outside of this region. Starwood Hotels & Resort's large size and dispersed geographic organization allowed it to mitigate the discretionary product effect. This reduction in the discretionary effect on its products decreases customer power over Starwood Hotels & Resorts.

The reduction of information asymmetry and low switching costs are factors that increase customer power against Starwood Hotels & Resorts. Starwood Hotels & Resorts is exposed to the same risk as hotel owners with respect to these factors. As described earlier in the chapter, Starwood Hotels & Resorts has mitigated against low switching costs by implementing Starwood Hotels & Resort's Preferred Guest loyalty program. These factors continue to contribute to the increase in customer power over Starwood Hotels & Resorts.

Similar to hotel owners, meeting planners hold strong customer power over Starwood Hotels & Resorts, but the strong power is reduced by the bargaining power that Starwood Hotels & Resorts has achieved with its size. As discussed previously, meeting planners are key customers that control significant business for hotels. Starwood Hotels & Resorts is able to use its size to reduce the power of meeting planners. For example, during contract negotiations with meeting planners Starwood Hotels & Resorts is able to resist the pressure they exert on them to include concessions in their contracts. Starwood Hotels & Resorts resists this pressure by forcing all hotels owners under in its management portfolio to refuse to concede to these demands. Starwood Hotels & Resort's ability to control their network of hotels allows it to successfully refuse to submit to meeting planners' concession demands.

A factor that decreases customer power over Starwood Hotels & Resorts is the high value-added to hotel products. Starwood Hotels & Resorts benefits from the same effect that hotel owner's experience. This effect was described previously in this chapter.

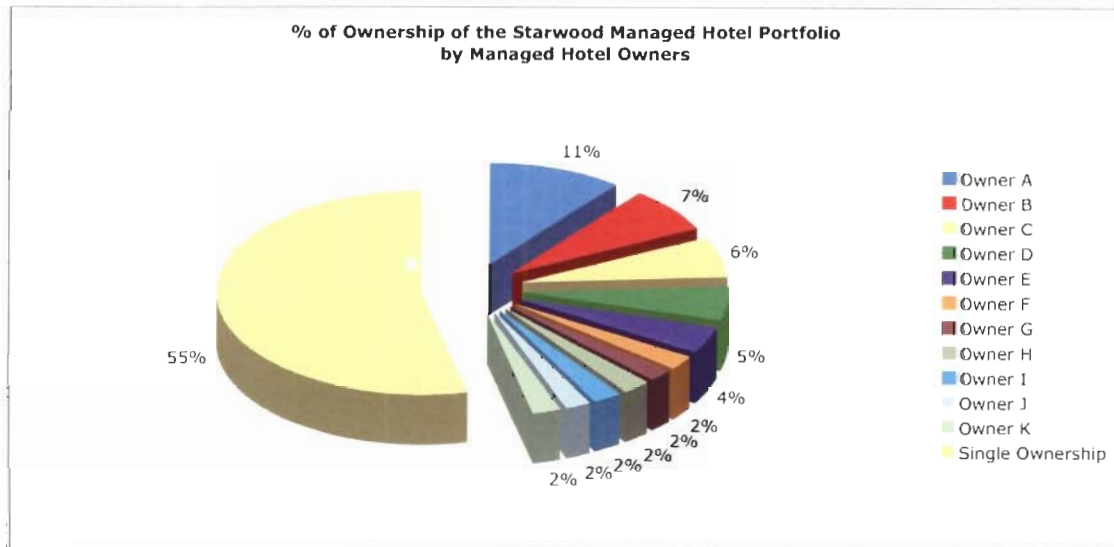
Another factor that decreases customer power of Starwood Hotels & Resorts is the diffused nature of customers that purchase its products. Starwood Hotels & Resorts

as a hotel management company has two primary customers, hotel guests and hotel owners. Both of these customers are diffused. In the case of hotel customers, they are diffused in their geographic distribution and by the large number of individual transactions they make. Although Starwood Hotels & Resorts has large corporate customers, no single one of them can be considered to hold significant purchasing power. Similarly, hotel owners are also diffused in ownership and geographic distribution. For example in its North American managed hotel portfolio, there are 95 separate hotel ownership groups distributed throughout the continent. Of these groups no single one of them controls more than 11% of Starwood Hotels & Resort's managed hotels. The dispersed ownership of Starwood Hotels & Resort's hotel management customers prevents any one, or any group of them, from exercising strong power over Starwood Hotels & Resorts. Thus, the diffused nature of Starwood Hotels & Resort's customers and owners prevent either of these groups from exercising strong control over it.

Table 7: Starwood Hotels & Resort's 2005 North American Division Owned & Managed Hotel Portfolio

Hotel Ownership Type	# Hotels	%
Owned	95	23%
Managed	93	22%
Franchise	229	55%
Total	417	100%

Figure 8: Percentage of Ownership of Starwood Hotels & Resort’s Managed Hotel Portfolio by Managed Hotel Owners



A factor that decreases customer power over Starwood Hotels & Resorts is the integration of its owned and managed assets into one business unit. The integration of these two divisions allows Starwood Hotels & Resorts to pilot new and innovative operating procedures, marketing methods and technologies at its own hotels. Owners of Starwood Hotels & Resort’s managed hotel properties are more willing to implement the new business innovations knowing that Starwood Hotels & Resorts has successfully implemented them at its own properties. Starwood Hotels & Resorts also gains credibility with its owners by proving to its managed property owners that it is willing to invest in innovation at its own hotels. Thus, by having an integrated owned and managed hotel portfolio, Starwood Hotels & Resorts is able to force owners to invest in innovation. Having a method to force owners to comply with their innovations strategy decreases customer power over Starwood Hotels & Resorts.

2.4.2.3.1 Customer Power Affect on Rivalry

The moderate customer power against hotel management companies contributes to the low rivalry between hotel management companies. As hotel companies' customers are considered a widely dispersed group, hotel customers are unable to yield any significant influence over hotel management companies. As a result, hotel management companies are rarely forced to into intense competition for any particular customer's business. Thus the low concentration associated with hotel management companies' customers contributes to low rivalry between them.

2.4.2.4 Threat of Entry – Low

The overall threat of entry into the Hotel Management market is low. The factors that lessen the threat of entry into the Hotel Management Company are: the tight control of management franchises; high cost of technology requirements; and, the large amount of technical industry knowledge required to enter the market. Factors that increase the threat of entry into the Hotel Management market are: low legal risks; low financial risks; and, the low marginal costs associated with growth. The following paragraphs will explain why these factors result in a low overall threat of entry.

A factor that decreases the threat of entry of specialized hotel management companies into the hotel management market is the tight control that integrated brand and hotel management companies keep over their franchising operations. These large integrated brand management companies will not sell hotel franchises in a market in which they do not already control either an owned or managed hotel. Additionally, integrated brand and hotel management companies do not allow franchises to be sold in cities in which they do no control enough guest supply to support the addition of a

franchise on top of their own owned and managed hotels. By limiting franchises to cities in which they control excess guest room demand, Starwood Hotels & Resorts ensures that the sales of its owned and managed hotel assets are not cannibalized by the addition of its own franchise hotels.

Examining Starwood Hotels & Resort's Vancouver Franchise sales history provides an example of tight franchise control. Starwood Hotels & Resorts did not sell a Westin franchise in Vancouver until after it had a managed asset open in the city. Further, it did not sell a Westin Franchise until after it controlled enough demand to ensure sales of its owned asset would not drop when it opened its franchise hotel. By maintaining tight control over their branded hotel inventory supply, large integrated management companies can prevent smaller specialized hotel management companies from competing against them simply by opening up their own hotel franchises using their own brands. Thus, large integrated brand and hotel management companies reduce the threat of entry into the hotel market by small, specialized hotel companies by retaining tight control over their franchise hotel supply.

Another factor that reduces the threat of entry into the hotel market is the high industry knowledge that is required to enter the market. The hotel industry is complicated, requiring successful hotel operators to have competencies in many industry specific disciplines. The major functional disciplines in which hotel owners require knowledge are hotel room, food and beverage, gaming and conference facility management. Within these functional areas there are a myriad of industry specific technical disciplines. A successful hotel management company must have the ability to hire, train and supervise managers in all of these disciplines. Successful hotel

management companies must be capable in maintaining technical expertise in all of the hotel industry's functional areas.

The threat of entry into the hotel market is increased by low legal risks that are associated with the hotel management industry. Similar to hotel owners, hotel management companies also share the same low regulatory burden. Hotel management company services are perceived as a relatively benign product and, as such, are not subject to any major legal or regulatory guidelines.

The threat of entry into the Hotel Management market is increased by low financial risks that hotel management companies are subjected to. Hotel management companies specialize in operating hotel properties for owners for a fee. As discussed earlier, most management contracts include fee structures that are configured so that hotel management companies receive fees for operating the hotel. Usually, these are awarded to hotel management companies without any contractual clauses subjecting the hotels to penalties if the hotels do not generate profit. The low financial risk associated with hotel management company contracts increases the threat of entry into the hotel market.

2.4.2.4.1 Threat of Entry Affect on Rivalry

The low threat of entry associated with hotel management companies contributes no significant affect in rivalry between hotel management companies.

2.4.2.5 Threat of Substitutes - Low

The threat of substitute products against Starwood Hotels & Resorts is considered low. The factor that contributes to this low threat is the absence of any substitute products to hotel management company services. A factor that increases the threat of

substitutes is the ability of owners to self-manage their hotels either as franchises or as independent hotels. The following paragraphs will describe why the overall threat of substitute products is considered low.

A factor that increases the threat of substitutes against the hotel management industry is the ability of hotel owners to self-manage their hotels as franchises. Owners that wish to operate their hotels as franchises search for a hotel franchise company that can best meet their business requirements. These requirements typically revolve around the quality and quantity of reservations that a hotel franchise company can provide to them. Owners pay larger franchise fees for agreements with well-established franchise companies that can provide them with larger customer volumes at higher quality levels, thereby yielding higher gross revenues. Owners pay less for hotel franchise agreements with less established companies that provide lower volume or quality levels and yield lower gross revenues.

Most large well-known hotel brands are available to purchase as a franchise. For example Starwood Hotels & Resorts, Hilton, Marriott and Intercontinental hotels all sell hotel franchise agreements for their various brands. Starwood Hotels & Resorts sells Westin, Sheraton and Four Points by Sheraton franchise agreements. Prior to allowing an owner to purchase a franchise agreement, Starwood Hotels & Resorts ensures that the franchise will not cannibalize the sales of any of its own owned or managed hotel properties. It also secures a contractual agreement from the owner requiring them to maintain various services and building quality levels associated with its hotel brands.

The franchise agreement provides the owner the ability to use the hotel brand name and the right to purchase inclusion into selected Starwood Hotels & Resorts brand

marketing initiatives. Most importantly, the franchise agreement allows the owner to purchase hotel reservations from Starwood Hotels & Resort's central reservation service. Under a franchise agreement, hotel owners can maintain control of their own hotels while receiving the benefits of large hotel brands controlled by their franchise provider. The ability of owners to purchase franchise agreements and maintain control of their own hotels increases the threat of substitution against hotel management companies.

Although the ability of hotel owners to run their hotels under franchise agreements increases the threat of substitution, the large integrated hotel brand and management companies mitigate this threat by maintaining tight control over the distribution of their hotel franchises, thereby preventing franchises from opening in hotel markets where they would compete directly against them. As discussed earlier, the large integrated hotel brand management companies will neither sell their franchise agreements in markets where they do not already have an owned or managed hotel presence, nor in markets that they believe that the new franchise will cannibalize their sales in their existing owned or managed hotel assets. By limiting access to would-be franchisees, Starwood Hotels & Resorts is able to reduce the threat of their entering into markets that Starwood Hotels & Resorts does not want them to compete in.

Another factor that increases the threat of substitution against hotel management companies is the ability of hotel owners to operate their hotels as fully independent hotel operators. As independent hoteliers, hotel owners have no affiliations to hotel chains and can run their hotels under their own private brand name. They are free from the fee structure obligations that managed and franchise hotels must operate under. This provides a strong incentive for hoteliers to increase profit at their own hotels. Having the

option to run their hotels independently increases the threat of substitution against hotel management companies.

The threat of substitution by owners that choose to self-manage their hotels as independent hotel companies is limited. First, owners that run their own properties must acquire the knowledge required to operate the complicated service environment that hotel customers demand. Second, independent hotel owners have increased risk associated with their operations due to low power over suppliers and limited access to guest room sales networks. The complex nature of hotel operation and the high industry knowledge required of hotel managers limits the threat of substitution by self-managed independent hotel owners.

The overall threat of substitution in the hotel management industry is rated as low. Although both self-managed franchise and independent hotels increase the threat of substitution against hotel management companies, this combined effect does not increase the overall low rating. The hotel companies have mitigated the threat against them from hotel franchises by controlling the franchise supply process. Similarly, independent hotel companies do not increase the threat of substitution due to the complex nature of the hotel operations and the high industry knowledge required of hotel managers.

2.4.2.5.1 Threat of Substitutes Affect on Rivalry

The low threat of substitutes associated with hotel management companies creates no significant affect in rivalry between hotel management companies.

2.4.2.5.2 Rivalry – Low

The threat of rivalry in the hotel management industry is considered low. The factors that decrease the rivalry between hotel management companies are: large one

time capital investments hotel owners demand as part of their hotel management contracts; long contract periods associated with management contracts; low exit barriers; and, dominance of a small number of strong competitors over a fragmented industry. A factor that increases rivalry is the low product differentiation of hotel management company products. Another factor is the competitive bidding process hotel owner's use in their contract selection. These factors will be explained in the following paragraphs.

Hotel management company contracts are structured similarly throughout the industry. The contracts are generally drafted using long time periods, ranging from 10 to 30 years. A typical contract includes a hotel management fee structure that pays the greater of the following two options to the contracted management company: 15% of gross revenue or from 1% to 4% of the operating income. Management fee structures in the hotel management industry have been stable over time. Their stability is a result of the long contract lengths and that most of the contracts in the hotel management industry were drafted during the 1980's and have not matured yet. It is also common practice in the hotel management industry to include upfront bonus payments to hotel owners as an incentive to sign management company contracts. These payments are normally contingent on using the fees for capital investment in the hotel property. The size of the signing bonuses is relative to the revenue-earning potential of the property and the length of the management contract. These payments can range from hundreds of thousands, to millions of dollars, depending on the size and length of the contract in question. The size of the signing bonus provided to a hotel owner also provides an opportunity for hotel management companies to negotiate higher management fee percentages into their hotel management contracts.

The capital investments hotel owners require from hotel management companies decrease rivalry within the hotel management company industry. Requiring large upfront capital investments excludes many smaller management companies from bidding on the contract, decreasing rivalry between hotel management companies. Even the large hotel management companies are discouraged from placing bids for management contracts belonging hotel owners that demand large cash signing bonuses included in their management contracts. The requirement for large capital investments from successful management company bidders has an overall cooling effect on competition for hotel management contracts.

The long contract periods of hotel management companies and hotel owners decrease rivalry. The long contract periods remove the number of opportunities a hotel owner has to place their management contract up for tender. The inability to force frequent competitive bidding for management contracts reduces the overall threat of rivalry amongst hotel management companies.

The low exit barriers that exist in the hotel management company industry reduce the threat of rivalry in the industry. In relative terms, the hotel management companies have low capital requirements required for their infrastructure. The most capital-intensive portion of operating a hotel has been left with the hotel owners, leaving the hotel management company responsible for only the network infrastructure, software and administration requirements required to operate their hotel management companies. The costs of operating the hotel management company network are small in comparison to the capital costs that are necessary to operate the hotel properties. These capital investment costs are offset by the various fees hotel management companies charge for access to

these services. Another factor that decreases the exit barriers from the hotel management industry is the relative ease by which hotel management companies can be liquidated. The ease of liquidation is caused by the fact that the hotel management company's principal assets are the hotel management contracts they own. These contracts can be easily sold and transferred to another management company. The low capital requirements and ease of liquidation of management company assets create low barriers to entry that decrease rivalry amongst competitors.

Another factor that decreases rivalry in the hotel management industry is the dominance of a small number of strong competitors within a largely fragmented industry. According to *Hotel & Motel Management Magazine* there are 246 hotel management companies listed in North America²⁹. Although this appears to be a large number of competitors, of the 246 hotel management companies, only 10 are large integrated hotel brand and management companies that compete directly against Starwood Hotels & Resorts. This number of strong competitors is further reduced by the fact that not all of these dominant hotel companies compete in the North American marketplace. In many cases only a few of these ten companies will compete against each other in a city. For example, in Vancouver the only other major integrated hotel company present from the list is Marriott. The small number of geographically dispersed, dominant hotel management companies in Starwood Hotels & Resort's competitor class result in low rivalry within the hotel management industry.

A factor that increases rivalry is the narrow product differentiation that occurs within the hotel management marketplace. A hotel management company's products are

²⁹Hotel & Motel Management, "Top Hotel Companies", September 15, 2003, New York, <http://www.hotelmotel.com/hotelmotel/article/articleDetail.jsp?id=69708>

the organizational structure it places in its hotels and the central services it provides to its hotels. All hotel management companies structure their operations in a similar vertical format. The generic company structure is to place a General Manager in each hotel that reports to a hotel management company representative. The General Manager structures the hotel operations along functional discipline lines that are roughly the same in every hotel. Hotels are divided into Rooms, Conference Services, Food & Beverage and Gaming Divisions, dependant on which functions are present at an individual hotel. In addition, hotel management companies all offer similar central reservation systems and central brand marketing divisions that supply these services to the managed hotels in their portfolios. The existence of similar product offerings amongst the various hotel management companies causes the management companies to compete against each other on price of their services. Thus, the narrow product differentiation results in increased rivalry within the hotel management industry.

The competitive bidding process used by hotel owners to award contracts contributes to increased rivalry in the hotel management industry. However, the competitive bidding process does not counteract the rivalry-reducing effects of long contract spans and the dominance of the few integrated brand and hotel management companies. Although in theory a competitive bidding process should force stronger competition between companies for contracts, the small number of dominant hotel companies available to bid on the contracts effectively reduces the competition. In addition, the long contract periods of 10 or more years further reduce the competition between hotel management companies for hotel management contracts.

2.5 Overall Attractiveness of the Industry

The overall attractiveness of the hotel industry has been divided into two components, The Hotel Industry and The Hotel Management Industry. Descriptions of the overall attractiveness of these two industry components are as follows.

2.5.1 Hotel Industry

Based on the five-factor analysis, overall hotel industry attractiveness is moderate and is likely to deteriorate to poor in the future. The industry suffers from high rivalry, high supplier power and high customer power. In addition the threat of entry into the industry is moderate and likely to grow. The threat of substitutes in the industry remains moderate. A summary of the likely changes in these variables follows.

Hotel products will continue to be considered a discretionary expense item, a fact that contributes to the higher risk levels that are associated with the industry. Perceptions of global levels of security as well as positive economic conditions constantly affect the ever-present threat level that exists with a discretionary expense. The industry is faced with the reality that it will always operate under the threat that demand for its product can be dramatically reduced at any time.

As a discretionary product, the industry is considered a bellwether industry subject to the overall economic cycles. During periods of poor economic performance, demand for hotel products is generally reduced. Business customers become more conservative and postpone or cancel any marginal travel and hotel expenses. Similarly, leisure customers travel less and either choose cheaper, lower quality hotel accommodations, or postpone their vacations until a period of positive economic

conditions exists. Likewise, during positive economic times, demand for hotel products increases.

The low risk of entry associated with new hotels, in combination with the positive economic conditions associated with the local Vancouver economy will likely result in the addition of new hotel inventory. This scenario is more probable considering the 2010 Olympic events have been secured by the city. The influx of new hotels into the Vancouver hotel market will increase the excess hotel room inventory, resulting in more intense rivalry between hotel competitors.

2.5.2 Hotel Management Industry

The hotel management industry's overall attractiveness rating is high. Rivalry, supplier power, threat of entry and threat of substitutes are low. Despite a moderate customer power rating, the overall attractiveness rating remains high. The explanation for this rating is as follows.

The hotel management industry has successfully extracted all the beneficial portions of the hotel industry away from the hotel owners. They have taken control of the industry's customers and suppliers, forcing hotel owners to pay them for access to these groups. In addition, they have left the owners responsible for all of the risks and expenses associated with operating in the industry.

The most significant threat to a hotel management company is the potential growth of customer power. To counter this threat hotel management companies use their size to ensure that they remain in control of hotel customers and limit their power growth.

2.6 Key Success Factors

An analysis of the key success factors for the hotel industry has been divided into two major sections, that of the hotel owners and the hotel management companies.

Explanations of the key success factors for these two groups are as follows. Ensure that each KSF discussed here has been demonstrated in the 5F analysis. I should have a pretty good idea already what's in this section.

2.6.1 Hotel Owners

The key factors for success for hotel owners are: a good property location; a favourable economic climate; a plentiful supply of cheap labour; customer loyalty; and, an affiliation with a strong hotel brand.

One of the most important factors in a hotel's success is the physical location of the property. The location of a hotel can affect both the price people are willing to pay for the guest rooms, and the willingness of people to stay at the property. Hotel customers are particularly sensitive to a hotel's location within a city. Hotels that are in preferred locations earn higher revenues and capture larger numbers of guests than those in less desirable locations. The distance from a preferred location does not need to be large to result in decreased demand for the hotel. In some cases hotels that are only a few blocks away from a preferred location may experience losses in room rates and hotel occupancy.

Another important factor contributing to a hotels success is the existence of favourable economic conditions in the marketplace. As discussed earlier, hotel room purchases are discretionary and, as such, are heavily influenced by the amount of

discretionary income consumers have available. During positive economic times both consumer confidence and discretionary income are greater, and as a result they make more guest room purchases. Conversely, during poor economic times, consumers have less confidence and less discretionary income. As a result, they make proportionately fewer discretionary purchases. During poor economic times hotel products are considered low priorities and suffer from lower sales.

The availability of a plentiful supply of cheap unskilled labour is another requirement for a successful luxury hotel. Luxury hotels can require almost one employee per room, depending on service levels. The majority of hotel jobs are labour intensive, moderately paid positions that do not require high levels of education. In order for hotels to maintain their service levels, they require a stable, plentiful supply of labour that meets these criteria. A luxury hotel cannot meet its guest expectations without enough labour. In order to maintain their profit margins, hotels also require a low wage structure. Without a stable supply of inexpensive labour, luxury hotel companies would be unable to meet their profit expectations.

Affiliation with a strong hotel brand is another key success factor for a luxury hotel. A brand affiliation provides access to customer lists, marketing programs, volume purchasing programs and guest loyalty programs. The choice of a brand determines the volume and quality of information that is available to a hotel. For example, a small, domestic hotel brand will have limited customer lists. Conversely, a large international brand can provide access to large, international customer lists. Likewise, a large international brand provides a more wide-reaching and comprehensive marketing program to its affiliates. Larger hotel brands are also able to leverage their size to

provide participating hotels access to superior purchasing programs. Finally, larger brands are able to create comprehensive customer loyalty programs that rely on network effects for success. These customer loyalty programs are used by the hotel industry to create a lock in effects on their customers that deters them from staying at competitor's hotels. Small chains and independent hotels cannot afford to create loyalty programs, and as a result they are under constant threat of losing their customers to hotels with loyalty programs. Participating in a hotel brand affiliation program provides a hotel property with significant advantages that are not available to small chains or independent hotel properties.

The ability to create customer loyalty is another key success factor for a hotel. As previously discussed, hotels face considerable rivalry and threat of substitution from their competitors. To defend against these threats a hotel must develop customer loyalty to ensure that it minimizes the defection of their customers to another chain that offers similar service, or even a chain that offers service at a different quality level. The high incidence of return stays for hotel customers increases the importance of customer loyalty. For example a typical Westin guest purchases 14 hotel room nights per year, resulting in a lifetime customer value (LCV) of \$14,000 USD³⁰. Due to the high LCV, high customer loyalty is considered a key success factor for a hotel.

2.6.2 Hotel Management Companies

The key success factors for hotel management companies are scale, brands and reputation. An explanation of these factors is as follows.

³⁰ Starwood Hotels & Resorts, Rhythms of Hospitality Training Reference Material, January 2005

The most important success factor for a management company is to achieve a scale large enough to enable it to ensure that supplier and customer power remains low. The principle benefit that hotel management companies can offer to hotel owners is their ability to manage hotels more efficiently than hotel owners can. This argument is always based on a management company's ability to generate economies of scale through the size of their operations. Their size permits them to increase leverage over all their suppliers and drive down material purchases. Without the benefit of scale, the principle reason for hiring a management company evaporates.

A second key success factor for a management company is to develop a strong brand. In addition to the benefits from size, hotel management companies sell their services based on their brands ability to attract more customers than its competitors to its brands. Strong brands allow hotel management companies to charge premiums on their services to hotel owners. Strong brands also help hotel management companies from competing against their competitors on a price basis.

A final key success factor for hotel management companies is the strength of their management team. One of the principal reasons hotel owners seek hotel management services is based on their ability to successfully operate hotels. The complicated nature of hotel operations precludes new hotel management companies from being entrusted with the operation of a hotel asset.

3 INTERNAL ANALYSIS

This chapter provides an internal analysis of both The Westin Bayshore Resort & Marina and The Hotel Management Company. The chapter includes descriptions of: organizational competencies that create strategic fit; product strategies; research and development expenses; organizational structure, decision making; labour and manufacturing from the service industry perspective; and, marketing and capital structures within these two components of the industry. The descriptions of these factors are as follows.

3.1 Generic Strategy

Starwood Hotels & Resort's generic strategy is one of differentiation. The company aims to be an industry leader in high quality, unique hotel products that set it apart from the competition. The Westin Bayshore Resort & Marina operates under Starwood Hotels & Resort's Westin brand and is seeking to mirror Starwood Hotels & Resort's strategy to provide a differentiated hotel product in the Vancouver upper upscale hotel market.

Figure 9: Generic Strategy Summary

		Cost Based					Differentiation				
		Low Cost/Adequate Quality ← → High Quality/Adequate Cost									
		1	2	3	4	5	6	7	8	9	10
Product Strategy	Rapid Follower										X
R&D Expenses	Low R&D										X
Structure	Centralized	X									
Decision Making	Less Autonomy	X									
Manufacturing	Economies of Scale		X								
Labour	Mass Production	X									
Marketing	Comparative / Push										X
Risk Profile	Low - Risk										X
Capital Structure	Leveraged	X									

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3.2 Organizational Competencies that Create Strategic Fit

3.2.1 Product Strategy

The product strategy of Starwood Hotels & Resorts, and by extension The Westin Bayshore Resort & Marina, is to differentiate its products from those of its competitors by being first to market with new and innovative hotel products. This product strategy is designed to allow Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina to charge a price premium for its guest rooms and avoid competing on price. Current examples of Starwood Hotels & Resort’s new product offerings are The Westin Heavenly

³¹ Adapted from Ed Bukszar, “Strategic Management” (EMBA Lecture Series, Simon Fraser University, Vancouver, BC, March 2005)

Bed®, The Westin Heavenly Shower®, The Westin Heavenly Dog Bed®, The Sheraton Sweet Sleeper Beds® and the StarMeeting Concierge®.

Starwood Hotels & Resorts has made a deliberate choice to differentiate from its competitors by devoting its resources to developing the physical products of a hotel, as opposed to the hotel service levels. Traditionally in the luxury and upscale hotel market segments, hotel companies rely on higher service standards to differentiate their products. Starwood Hotels & Resorts has recognized that other hotel companies have overlooked the development of their physical product and therefore has an opportunity to achieve a first mover advantage by being first to market these product enhancements.

Prior to May 2005, The Westin Bayshore Resort & Marina was not able to take full advantage of Starwood Hotels & Resort's product differentiation strategy due to the capital investment restrictions placed upon it by its owners. The Westin Bayshore Resort & Marina was slow to implement both the Heavenly Bed® and Heavenly Shower® programs, missing an opportunity to differentiate its products from local competitors. As of May 2005 The Westin Bayshore Resort & Marina had still not completed The Westin Heavenly Bed® installation that was originally rolled out in 2001. Likewise, the Heavenly Shower® was developed by Starwood Hotels & Resorts and made available to The Westin Bayshore Resort & Marina in early 2003, but was not installed until May of 2005.

The Westin Bayshore Resort & Marina is expected to complete the Heavenly Bed® and Heavenly Shower® installations during 2005, and will participate in any new product innovation programs in the future. The Westin Bayshore Resort & Marina's new owners are committed to Starwood Hotels & Resort's innovation strategy. As of May

2005, the new Resort owners have committed to a large initial capital investment for The Westin Bayshore Resort & Marina to allow it to fast-track any uncompleted product installations.

3.2.2 Research & Development Expenses

Research and development expenses at The Westin Bayshore Resort & Marina are above average when compared to other similar hotels. This is primarily as a result of The Westin Bayshore Resort & Marina's participation in Starwood Hotels & Resort's Six Sigma continuous improvement program. The Westin Bayshore Resort & Marina has embraced Starwood Hotels & Resort's Six Sigma continuous improvement program, which has allowed The Westin Bayshore Resort & Marina to participate in several new product innovation teams. Participation in Starwood Hotels & Resort's innovation teams has allowed The Westin Bayshore Resort & Marina to be an early adopter of new process and technological innovations. Examples of the Six Sigma innovations that were implemented at The Westin Bayshore Resort & Marina are the StarMeeting Concierge® and Front Desk Schedule programs.

The Westin Bayshore Resort & Marina's strong research and development commitment complements its overall strategy of becoming Vancouver's most innovative hotel company and is integral to maintaining its product development capacity. The Hotel's core strategy calls for it to increase its market share by differentiating its product offering. Differentiating a product in a mature market requires new product designs that hotel customers will want to experience. Research and development centred on The Westin Bayshore Resort & Marina's product offerings will be key to both Starwood

Hotels & Resorts and The Westin Bayshore Resort & Marina's continued ability to differentiate its products.

3.2.3 Organizational Structure

The Westin Bayshore Resort & Marina operates under a highly centralized operating structure. The Westin Bayshore Resort & Marina is organized into various departments aligned in a pyramid structure that is subdivided into individual functional units. All strategic decisions for The Westin Bayshore Resort & Marina's four hundred plus associates are made by a small group of six directors. Many of The Westin Bayshore Resort & Marina's key operating processes is handled centrally. For example, the Finance handles budgeting and the Human Resources Department handle the recruitment processes within The Westin Bayshore Resort & Marina.

The centralized structure of The Westin Bayshore Resort & Marina is not aligned with its strategy of providing rapid implementation of innovative new hotel products. One of the effects of a centralized operating structure is the volume and complexity of communication that this organizational structure requires. This challenge makes it cumbersome to move communication throughout the organization. This reduces The Westin Bayshore Resort & Marina's ability to import or export new product innovations. These communication complexities also increase the likelihood of product variance occurring with any new product innovations that are imported into The Westin Bayshore Resort & Marina.

3.2.4 Decision-Making

The Westin Bayshore Resort & Marina utilizes a low autonomy, top down decision-making process granting little autonomy to its associates. Typically important decisions are made by either the General Manager and/or another Executive Committee member and are communicated down through the organizational tiers to The Westin Bayshore Resort & Marina's associates. The Westin Bayshore Resort & Marina is structured this way to increase decision-making consistency and to reduce the poor decision-making.

Unfortunately The Westin Bayshore Resort & Marina's low autonomy decision strategy is not aligned with its service strategy of retaining its existing customers. Modern hotel guests expect immediate responses to their service requirements by hotel associates, and if this requirement is not met they will defect to a competitor hotel. The bureaucratic decision-making approach used by The Westin Bayshore Resort & Marina, does not support its customer's service expectations.

3.2.5 Labour & Manufacturing from Service Industry Perspective

The Westin Bayshore Resort & Marina's manufacturing strategy is to create economies of scale by leveraging the size and scope of the company. This strategy is aligned with that of its corporate parent, Starwood Hotels & Resorts. As a business unit of Starwood Hotels & Resorts, The Westin Bayshore Resort & Marina leverages its size to achieve economies of scale from purchasing benefits, operating supplies, insurance, energy, telecommunication, technology, food & beverage supplies, furniture, fixtures and equipment. Within the hotel industry, these goods are the inputs that are required to provide services for customers.

Starwood Hotels & Resort's organizational structure also complies with a traditional production methodology. Its associates are organized into traditional job positions that are highly specialized and designed to complete one primary task. For example, room attendants only work in the housekeeping department cleaning guest rooms. Front desk agents work exclusively at the front-desk checking guests in and out of The Westin Bayshore Resort & Marina. Cooks work exclusively in the kitchen preparing food.

The rigid confines of a silo organizational structure and a cost-based purchasing strategy are not aligned with The Westin Bayshore Resort & Marina's strategy of becoming a profit leader through innovative product design. This limits the flexibility of The Westin Bayshore Resort & Marina. Limiting job flexibility in this manner could prevent financial savings and product innovation. For example, combining the duties of associates from different departments might result in savings but a commitment to mass production techniques would preclude The Westin Bayshore Resort & Marina from discovering this innovation. In this manner the mass production strategy might actually prevent product innovation from occurring at The Westin Bayshore Resort & Marina. The same strict mass production concept might also prevent The Westin Bayshore Resort & Marina from experimenting with new product innovations that could not be implemented within the confines of its mass production model. Similarly although using Starwood Hotels & Resort's scale to provide purchasing savings is wise, providing the lowest priced goods will not allow The Westin Bayshore Resort & Marina to differentiate its products from its competitors, and may also limit its ability to provide innovative products to its customers.

3.2.6 Marketing

The Westin Bayshore Resort & Marina uses a low cost push marketing strategy to promote itself to its primary customer group room purchasers. It relies on its parent company, Starwood Hotels & Resorts; to provide the higher cost, pull marketing strategy in order to supply The Westin Bayshore Resort & Marina with its secondary customer group, transient room purchasers.

The Westin Bayshore Resort & Marina's in-house sales and marketing department consists of a group of approximately 20 sales managers and support staff, that is responsible for selling group room nights to new and existing customers. Each of The Westin Bayshore Resort & Marina's sales managers has been assigned responsibility for sales within a geographic area in North America. In the group room night market, sales managers typically call upon professional meeting planners who either work for the company purchasing the room nights, or with a third party firm that specializes in meeting planning. Due to the large dollar amounts associated with individual group room night sales, meeting planners are considered key decision makers with whom The Westin Bayshore Resort & Marina sales managers devote considerable resources towards maintaining relationships. A sales manager's ability to develop successful relationships with the meeting planners in their markets is key to the success of a hotel.

The Westin Bayshore Resort & Marina does a limited amount of its own pull marketing. Typical purchases of this type of marketing are limited to advertisements in various printed media outlets. As The Westin Bayshore Resort & Marina is primarily a group-meeting hotel, advertising is usually purchased in meeting planner trade magazines and other industry-specific media. The Westin Bayshore Resort & Marina does do some

advertising in specific markets for transient room nights at select times. For example, in low group periods such as summer and holidays The Westin Bayshore Resort & Marina will advertise in newspapers in Seattle and Vancouver. The Westin Bayshore Resort & Marina also advertises in various travel guides such as the Canadian Automobile Association Hotel Guide and the Canada Select Hotel Guide.

The Westin Bayshore Resort & Marina relies on Starwood Hotels & Resort's Westin brand team to provide the majority of its pull marketing services. Starwood Hotels & Resort's Westin corporate brand team uses a high cost pull methodology in its marketing program. It should be noted however that the industry as a whole has a conservative push marketing strategy. Examples of Starwood Hotels & Resort's high cost marketing model are its use of expensive and sophisticated television, newsprint and magazine advertising programs. Starwood Hotels & Resorts has also pursued edgy, pioneering marketing themes to attract new customers to its product. Examples of these campaigns are the Westin, "Who is he/she sleeping with" and the Sheraton Rolling Stone, "Start me up" television advertising campaigns. These campaigns were designed to attract new clients to Starwood Hotels & Resort's hotel brands.

Starwood Hotels & Resorts also maintains a network of sales associates, called the Global Sales Office, that sell the entire brand portfolio to group room night purchasers. The Global Sales Office is structured in a similar way to The Westin Bayshore Resort & Marina's sales departments with sales managers who are responsible for developing and maintaining relationships with the key meeting planners who bring business to multiple properties of Starwood Hotels & Resorts.

The division of marketing responsibility between The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts in its current form is not optimal. The high cost pioneering pull strategy that Starwood Hotels & Resorts uses for its marketing strategy supports its strategy of providing maximum earnings and cash flow through increased profits to its shareholders. It achieves this by driving new customers, as well as existing demand toward Starwood Hotels & Resorts properties. It also allows The Westin Bayshore Resort & Marina to receive the benefits of an expensive pull marketing campaign that it could otherwise not afford on its own. However, the existence of overlapping responsibility between The Westin Bayshore Resort & Marina's sales managers and Starwood Hotels & Resort's Global Sales Office sales managers frequently causes customer confusion on whom to speak to. It also causes friction between the Global Sales Office and The Westin Bayshore Resort & Marina sales managers over account ownership.

3.2.7 Risk Profile

The Westin Bayshore Resort & Marina has employed a high-risk strategy in its business operation. This high-risk strategy is evidenced by the conversion of The Westin Bayshore Resort & Marina from a 510-room medium-sized transient leisure based hotel to a 510 room, 48,000 square foot convention hotel. This property conversion came at cost of \$55 million dollars and forced the closure of The Westin Bayshore Resort & Marina for approximately 24 months.

The high-risk strategy employed by The Westin Bayshore Resort & Marina is a result of its strategy of providing innovative new products to attract new customers while

retaining its existing customers. The conversion of The Westin Bayshore Resort & Marina allowed it to further differentiate its product from other hotels in the local market.

3.2.8 Capital Structure

Prior to May 2005, Aoki Hotels & Resorts owned The Westin Bayshore Resort & Marina. During this time The Westin Bayshore Resort & Marina's capital structure was considered highly leveraged. Aoki Hotels & Resorts was actually undergoing bankruptcy proceedings at the time. As a result it maintained tight control over all cash and capital expenditures for the property. It also did not meet its contractual capital investment obligations.

Aoki Hotels & Resorts was purchased by Starwood Capital Group LLC in May 2005, and as a result saw a substantial improvement in its debt position. Starwood Capital Group LLC is a large, private real estate investment firm, specializing in hotel ownership. Starwood Capital Group LLC controls over 8 billion dollars in assets³² and is not heavily leveraged. The Caisse de Dépôt et Placement du Québec is the Quebec Provincial Government's pension investment company controlling over \$120 billion in assets³³. The Caisse de Dépôt et Placement du Québec is also considered to be a conservative investment institution and is also not heavily leveraged. The Westin Bayshore Resort & Marina's new owners, referred to as the Parent Company, have pledged to provide an immediate \$12 million in capital investment in addition to the annual 3% capital investment.

³² Starwood Capital Group. "Company Overview"
<http://www.starwoodcapital.com/mainpages/coverview.htm>

³³The Caisse de dépôt et placement du Québec. "Company Overview"
www.lacaisse.com/Press/RapportFinancier.aspx

The current capital structure of The Westin Bayshore Resort & Marina under its new hotel ownership is better suited to a differentiated strategy involving innovation risks. The restrictions brought about by The Westin Bayshore Resort & Marina's previously highly leveraged capital structure have forced The Westin Bayshore Resort & Marina to pursue more conservative business strategies. If The Westin Bayshore Resort & Marina were less leveraged it could have invested in product development. For example, the previous Resort owners refused to allocate funds to capital projects such as the Westin Heavenly Bed® or the Westin Heavenly Shower® programs. Both of these capital investments would have assisted The Westin Bayshore Resort & Marina to differentiate its physical guest rooms from its competitors. Without these capital investment programs The Westin Bayshore Resort & Marina would have been forced to compete more often on price. Under the new capital structure The Westin Bayshore Resort & Marina expects to fully participate in all of the Westin's innovation products.

3.2.9 Generic Strategy Conclusion

The Westin Bayshore Resort & Marina's differentiation strategy of providing innovative, high quality luxury hotel product is a good fit for the company. It is hopeful that it will help prevent it from competing on price. However there are components of Starwood Hotels & Resort's strategy that are not aligned with the generic differentiation strategy. Both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina have caused these strategy misalignments and correcting them will require action by both parties.

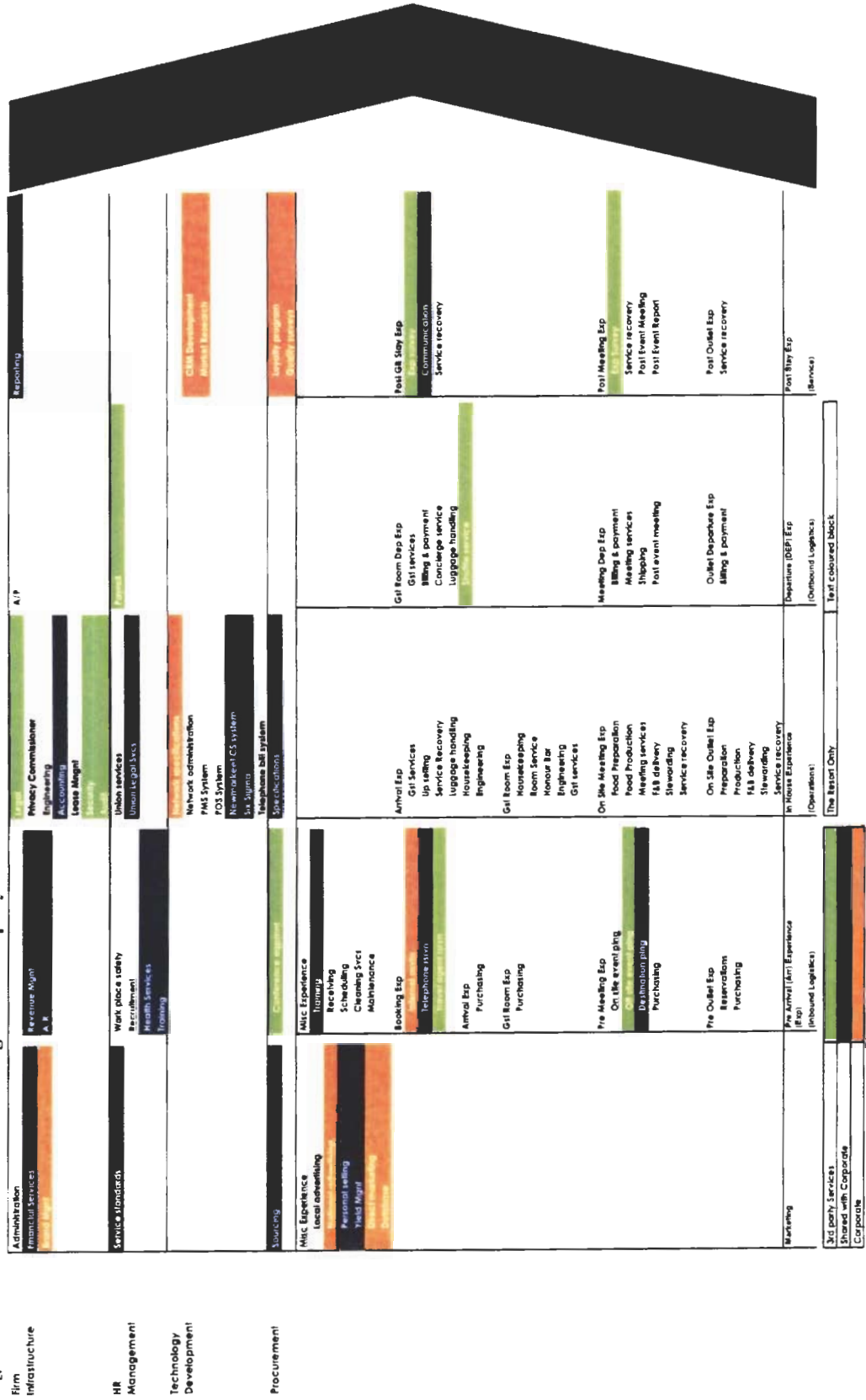
The recent change in The Westin Bayshore Resort & Marina's ownership is providing an opportunity to align some strategic components. It will allow The Westin

Bayshore Resort & Marina to make its product strategy more innovative due to the increased access to capital funding. Likewise, the increased funding will allow The Westin Bayshore Resort & Marina to increase its participation in research and development initiatives sponsored by Starwood Hotels & Resorts. The ownership change has also made The Westin Bayshore Resort & Marina's capital structure more conservative, and is allowing it to become aligned with a differentiated strategy.

In conclusion, there are several components of the strategy that are controlled by Starwood Hotels & Resorts that are not aligned with the differentiated strategy. The company continues to advocate a centralized organizational structure that is working in opposition to its differentiated strategy. While Starwood Hotels & Resorts advocates increasing autonomy over decision-making by its associates, its centralized structure prevents this from flourishing. Starwood Hotels & Resort's Manufacturing and Labour practices adhere to rigid, mass production methodologies that advocate lowest cost production, a fact that may be preventing the company's ability to bring new products to market. Starwood Hotels & Resort's push marketing program aligns with its differentiated strategy, but it continues to maintain a parallel pull marketing program that duplicates similar capabilities in The Westin Bayshore Resort & Marina. In order for The Westin Bayshore Resort & Marina to correct these improperly aligned strategies, it will require Starwood Hotels & Resorts will be required to work with it to design and implement new approaches at The Westin Bayshore Resort & Marina.

3.3 Value Chain

Figure 10: Combined Resort & Management Company Value Chain³⁴

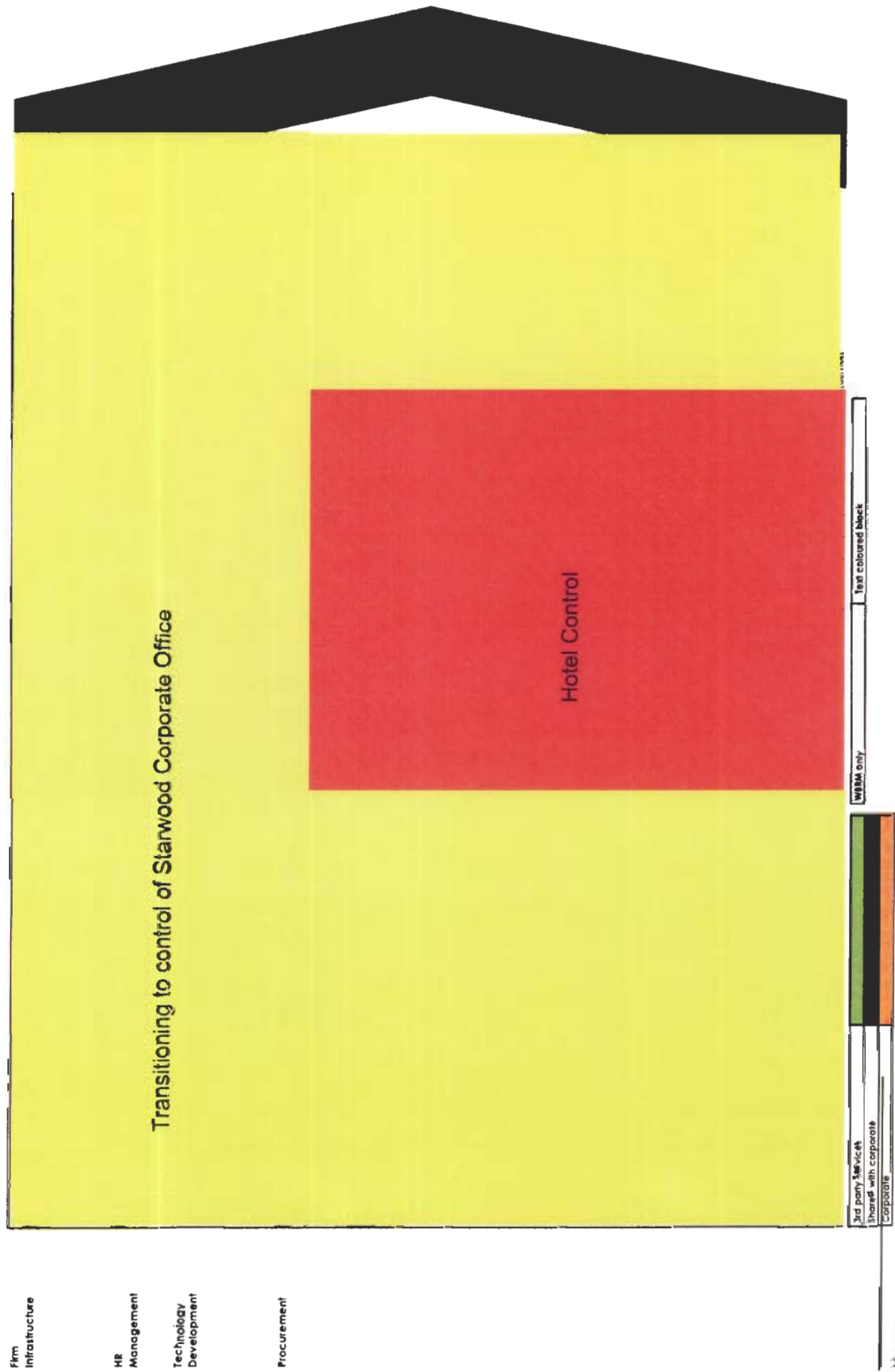


³⁴ Adapted from Michael E. Porter, Competitive Advantage: Creating and Sustaining Superior Performance, The Free Press, 1985, Page 338

3.3.1 Organizational Responsibility Analysis

A high level analysis of The Westin Bayshore Resort & Marina's firm level value chain reveals that ownership of tasks in its firm level support activities and the primary activities of marketing and pre-arrival experience are being gradually transferred to Starwood Hotels & Resort's corporate office. The remaining primary activities of the in-house and departure experience belong exclusively to the hotel. The remaining primary hotel activities are comprised mostly of the hotel's core competencies. The following diagram, labelled zones of responsibility provides a graphical illustration of this concept.

Figure 11: Firm Level Value Chain Zones of Responsibility³⁵



³⁵ Ibid

3.3.2 Hotel Organization Overview

Hotels are traditionally structured as fully functional, independent business entities that deliver their services through a number of highly specialized departments. A typical hotel organizational structure consists of three divisions, Administration and General, Food and Beverage and Rooms divisions. Within these divisions there are individual departments that are responsible for delivering services to hotel guests. The following table includes a typical list of a hotel’s major departments.

Table 8: List of The Westin Bayshore Resort & Marina’s Major Departments

Administration & General	Rooms Division	Food & Beverage
Executive Office	Reservations	Food Outlets (Restaurants)
Sales/Catering	Bell Desk/Doormen	Banquets
Accounting	Front Desk	Culinary (Kitchen)
Human Resources	Housekeeping	Stewarding (Dishwashers)
	Laundry	Receiving Department
	Engineering	
	Security	

The Westin Bayshore Resort & Marina’s firm level value chain has been designed to highlight who is responsible for the various firm level activities. Responsibility for these activities can be assigned to one of the following parties: third party providers, The Westin Bayshore Resort & Marina, Starwood Hotels & Resort’s Corporate Office or shared between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina. The following paragraphs contain written descriptions of the firm level activities.

3.4 Support Activities

3.4.1 Firm Infrastructure

A visual inspection of the firm infrastructure section of the form level value chain reveals that the ownership for most of the tasks in this area are not assigned to The Westin Bayshore Resort & Marina, but to other owners. The ownership assignment of the firm infrastructure activities is as follows.

Starwood Hotels & Resorts Corporate office has sole responsibility for the brand management portion of the firm infrastructure activities. However, it has shared responsibility for several other activities with The Westin Bayshore Resort & Marina. These shared activities are financial services, revenue management, accounts receivable, accounting services and reporting services. The Westin Bayshore Resort & Marina has responsibility for the following activities; administration, privacy commissioner, engineering, property lease management and accounts payable. Third party vendors have been assigned responsibility for legal services, security and audit activities.

3.4.2 Human Resource Management

The Westin Bayshore Resort & Marina does not perform majority of tasks in human resource management on its own, but rather shares these responsibilities with the corporate office and a third party vendors. Ownership of human resource management tasks is as follows.

3.4.2.1 Recruitment

The Westin Bayshore Resort & Marina's Human Resources Department has responsibility for implementing recruitment procedures, work place safety and day-to-day

management of The Westin Bayshore Resort & Marina's union contract. A detailed explanation of these functions is as follows.

The Human Resources department is responsible for all of The Westin Bayshore Resort & Marina's recruiting needs. After receiving a staff requisition from one The Westin Bayshore Resort & Marina's department heads, the Human Resources department uses a standard Starwood Hotels & Resort's recruitment process to obtain new associates for The Westin Bayshore Resort & Marina.

The Westin Bayshore Resort & Marina's recruitment process begins when a department head forwards a signed staff requisition to the Human Resources department. Staff requisitions require the approval of a Department Head, The Director of Human Resources and the General Manager.

After receiving an authorized staff requisition the Human Resource department completes any marketing that is required to attract qualified candidates. Typically for hourly positions the Human Resources Department relies on The Westin Bayshore Resort & Marina's corporate website and on walk-in traffic for candidates. If necessary the Human Resources Department will place advertisements on The Westin Bayshore Resort & Marina's web site, local newspapers, in local hotel schools and with specialty hotel Internet recruiting firms such as HCareers.com.

For management positions the Human Resources Department places a higher priority on attempting to recruit from within Starwood Hotels & Resort's North American hotel division. This frequently results in transferring management associates from Starwood Hotels & Resort's Hotels in other cities across North America. The Westin Bayshore Resort & Marina has also been forced to use recruiting firms to locate senior

management candidates with appropriate experience. As in the case of recruiting senior Hotel Managers, The Westin Bayshore Resort & Marina often finds it necessary to recruit candidates from the United States of America and relocate them to Vancouver.

After the Human Resources Department locates prospective candidates, they are given a three-stage behavioural interview process that is standardized throughout Starwood Hotels & Resorts. The Human Resources Department oversees each of the three interview stages.

In the first stage, candidates are pre-screened using a standardized telephone interview questionnaire that is administered by a Human Resources associate. If a candidate is successful in the first stage, they proceed to a second, in person behavioural interview with both the Department Head and another hotel manager. During the second interview, both Hotel Managers interview the candidate using the behavioural interview method. Under the behavioural interview method, managers ask all candidates a standardized set of questions that requires them to provide examples of past performance. After completing the interview, the two managers complete a consensus-based evaluation of the candidate's performance that either recommends the candidate for hire or no-hire. After reviewing all of the successful second interview candidates, the department head that requested the new staff member is permitted to choose a candidate from the successful second interview candidates. The third and final stage of the interview process is a final interview with the General Manager. This final interview is primarily an opportunity for the candidate and General Manager to meet and ask questions of each other.

The Westin Bayshore Resort & Marina shares responsibility with Starwood Hotels & Resort's corporate office for service standards, health services training and union bargaining services. Payroll services have been assigned to third party vendors.

Although Starwood Hotels & Resorts has not explicitly indicated that it is seeking to move human resource management to a centralized delivery model, the value chain analysis reveals that they have begun migrating human resource services to a centralized delivery platform. The result of this policy is that responsibility for delivering these services is being shared between The Westin Bayshore Resort & Marina and the corporate office. This situation is resulting in expensive and confusing service duplications. In addition, there is the risk that a lack of accountability will result in a reduction of human resource service quality and delivery problems at The Westin Bayshore Resort & Marina level.

3.4.2.2 Union Contract Administration

The Human Resources Department is responsible for completing any daily operational oversight of The Westin Bayshore Resort & Marina's union contract. This includes maintaining the relationships with shop stewards and union representatives, processing and conducting official disciplinary actions and processing any union grievances.

The Human Resources Department is responsible for meeting with any official union representatives on as needed and basis. At any time the Human Resources Department may be requested to meet with The Westin Bayshore Resort & Marina's union shop stewards to discuss working conditions or disciplinary matters brought against any associate of The Westin Bayshore Resort & Marina. Additionally, official

union representatives from the local office may request access to the property to meet with union members to discuss official union business, or to discuss any disciplinary actions brought against their members that they intend to file grievances against.

The Human Resources Department is also responsible for all communication sent from The Westin Bayshore Resort & Marina to the union. Typical communication can take the form of verbal phone calls or written letters that concern the administration of The Westin Bayshore Resort & Marina's union contract.

Finally, the Human Resources Department is responsible for managing any official grievances that the union brings against The Westin Bayshore Resort & Marina. The Westin Bayshore Resort & Marina's grievance process is a complicated and expensive legal procedure that usually requires professional legal services to provide The Westin Bayshore Resort & Marina with a full defence, as permitted under its union contract.

3.4.2.3 Miscellaneous Services

The Human Resources Department also administers The Westin Bayshore Resort & Marina's employee record keeping, associate benefit plans and work place safety programs. As a large employer of more than 430 associates, each of these programs requires considerable administration, all of which is performed by the Human Resources Department.

3.4.3 Technology Development

Responsibility for the ownership of the activities within the technology development category are split between those that are controlled or shared with Starwood

Hotels & Resort's Corporate office and those that are exclusively controlled by The Westin Bayshore Resort & Marina. The following paragraphs will describe the ownership of these individual activities.

Starwood Hotels & Resorts is responsible for The Westin Bayshore Resort & Marina's network specifications, customer relationship management technology and market research technology. Starwood Hotels & Resorts shares responsibility for the Newmarket Conventions Services System and the Six Sigma process improvement program. The Westin Bayshore Resort & Marina has exclusive responsibility for the network administration, property management system, point of sale systems and the telephone billing system.

Starwood Hotels & Resorts has been pursuing a goal of incrementally migrating responsibility for the on-property technology systems to Starwood Hotels & Resort's more centralized corporate facility. The purpose of this change is to reduce the variation between property system applications and thereby reducing overall system administration costs. As a result of the increased capability of network systems, and the reduced costs associated with new communication technologies, Starwood Hotels & Resorts has been able to speed up the integration of its system network. It is Starwood Hotels & Resort's intention transfer the remaining technology activities that are either fully controlled or shared with the corporate office and hotel properties to be the sole responsibility of Starwood Hotels & Resort's corporate office.

3.4.4 Procurement

Primary responsibility for procurement activities is either exclusively controlled by Starwood Hotels & Resorts, or jointly controlled by Starwood Hotels & Resorts and its hotel properties. The following paragraphs will describe ownership of procurement tasks.

Starwood Hotels & Resorts controls responsibility for the loyalty program and quality surveys. Responsibility for any product sourcing and product specifications is jointly shared between Starwood Hotels & Resort's corporate office and The Westin Bayshore Resort & Marina. Conference equipment sourcing has been completely outsourced to a third party vendor. Responsibility for on-site contracting has been left in the hands of The Westin Bayshore Resort & Marina.

Until recently, Starwood Hotels & Resort's Corporate office was only interested in controlling purchases for large goods that were required in all of its hotels. Examples of purchases of this scope include the procurement of the company's guest loyalty and quality survey firm. However, as part of a recent cost cutting effort, Starwood Hotels & Resorts has indicated that it will begin to incrementally assume additional procurement responsibilities from its hotel properties. As the company increases its ability to centrally administer purchasing programs the pace of centralization in the companies procurement area will accelerate.

3.5 Primary Activities

3.5.1 Marketing

Responsibility for the primary marketing functions is split between The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate office. Starwood Hotels & Resort's corporate office handles the national market advertising.

Responsibility for personal selling, yield management and direct marketing functions are shared by The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate office. The following paragraphs will describe how these functions are organized, and evaluate why The Westin Bayshore Resort & Marina's marketing and yield management functions are successful.

3.5.1.1 National Marketing – Corporate Responsibility

Starwood Hotels & Resort's Westin Brand team is completely responsible for The Westin Bayshore Resort & Marina's National marketing program. The Westin Brand team has a department dedicated to creating and executing a cohesive marketing strategy for the entire brand. The Westin marketing program is distributed using television print media. The department also creates and maintains an online print advertising creation tool called the Adhoc Marketing Tool. The Adhoc Marketing Tool allows individual hotel properties to create custom print advertisements using pre-approved graphics and text. Charging each of the Westin brand hotels 4% of their total guest room revenue funds the national marketing program.

The National marketing program benefits The Westin Bayshore Resort & Marina because it allows it to participate in advertisement campaigns that it otherwise could not afford. As a single hotel, it would be unable to afford access to national television and

newspaper advertising. The Westin Bayshore Resort & Marina would also not be able to afford the quantity and quality of graphics if it were not for the Adhoc Marketing Tool. However, as a member of the Westin Brand, The Westin Bayshore Resort & Marina is able to participate in national advertising programs and achieve the benefits that economies of scale bring to the national advertising program.

3.5.1.2 Personal Selling – Shared Responsibility

The Westin Bayshore Resort & Marina uses a personal sales strategy to sell its conference service products to customers. The Westin Bayshore Resort & Marina has Sales Department consisting of 20 sales managers and assistants that report to the Director of Sales. Every sales manager is assigned a geographic market within North America from which they must obtain a monthly quota of group room nights. A sales manager's group room night quota includes specific quantities of room nights for the present year and up to 10 future years, depending on their market assignments. The sales managers are responsible for servicing existing clients of The Westin Bayshore Resort & Marina and obtaining new clients. Successful sales managers are able to develop strong relationships with key clients who are usually able to provide several conference programs to The Westin Bayshore Resort & Marina.

The Westin Bayshore Resort & Marina's sales process for conference clients consists of the following steps: sourcing the business, creating a proposal, submitting the proposal, revising the proposal and obtaining a signed contact.

The first step in the sales process is to source a potential piece of business. Sales managers are generally contacted by the clients and notified that they have an upcoming conference for which they need a proposal. The cyclical booking pattern of groups also

allows sales managers to predict upcoming potential business and contact the appropriate meeting planners. Thus, a sales manager's ability to develop relationships with meeting planners and clients strongly affects their ability to compete for business. In order to develop relationships with potential clients, sales managers will invite them to The Westin Bayshore Resort & Marina for site inspections. During a site inspection a client may choose to stay on at The Westin Bayshore Resort & Marina to experience the property first hand.

Significant resources are invested in sight inspections to ensure that the sales managers are able to develop and maintain strong relationships with prospective clients. The Westin Bayshore Resort & Marina will classify these clients with a VIP status. As a VIP status guest, the client will be greeted at the airport by the sales manager and escorted back to The Westin Bayshore Resort & Marina in a car. Upon arrival at The Westin Bayshore Resort & Marina, the General Manager will host a receiving line with associates from all departments present to meet the client. The sales manager will then escort the client on a tour of The Westin Bayshore Resort & Marina. If the client remains overnight, they will receive the best room available at The Westin Bayshore Resort & Marina, complimentary of course. The Westin Bayshore Resort & Marina will also furnish the room with special welcome amenities that often include wine, flowers and souvenirs.

Following a successful site inspection, the sales manager will receive a request for proposal from the client. At this time the sales manager will prepare and submit a formal meeting proposal to the client. The meeting proposal includes guest room rates applicable to the type and quantity of required guest rooms, meeting room quantities and

rates and contractual guarantees on total food and beverage revenues. There are two key decisions that a sales manager must make during this stage of the sales process. First, the sales manager must ensure that the guest room to meeting room space ratio is in The Westin Bayshore Resort & Marina's favour. The Westin Bayshore Resort & Marina must avoid booking conferences that are meeting room space intensive, as these can prevent it from selling additional conference bookings during the same time period. The second decision is the choice of the room rate. A sales manager must choose a rate that is competitive to other competing hotels and that will also be lower than the forecasted transient room rates for the city during this time period. If a rate is substantially higher than The Westin Bayshore Resort & Marina's competitor of a similar quality level, the client may choose this bid over The Westin Bayshore Resort & Marina's. If The Westin Bayshore Resort & Marina's rate is too much higher than the forecasted transient rate The Westin Bayshore Resort & Marina may end up in the awkward position of having a client with a higher group rate than the available transient rate of the day. This situation usually causes the conference clients to accuse The Westin Bayshore Resort & Marina of price gouging and a demand for The Westin Bayshore Resort & Marina to drop the clients group rate below the published transient rate.

After the Sales Manager submits the proposal, it may be placed on short list of hotels that are requested to submit a "revised proposal". During this phase the client frequently demands concessions from The Westin Bayshore Resort & Marina. Concessions can include room rate reductions, complimentary room nights based on total room nights, commission rates or room type upgrades. Clients will also use this opportunity to force competing hotels to play off of each other by demanding each hotel

give more concessions than the other. The Director of Sales and Marketing is responsible for authorizing all concessions that involve non-cash transactions of hotel products. This includes room rate reductions, complimentary rooms, complimentary food and beverage items. The Controller and the General Manager must approve all transactions that include third party services, contra with third parties or the disbursement of cash from The Westin Bayshore Resort & Marina. Examples of third party services that require cash disbursements are providing complimentary parking or decorating services.

The final step in the sales process is obtaining the final signed contract. During this phase the client will choose the successful hotel and request a final contract from it. The hotel's final contract includes all room rates, room quantity, meeting space requirements, food and beverage revenue guarantees and room attrition penalties. Room attrition is the financial penalty that the client will pay if they do not purchase all of their contracted guest room nights.

Starwood Hotels & Resorts Global Sales Office is a parallel sales office to The Westin Bayshore Resort & Marina's in-house sales department and is responsible for all sales and advertising to potential customers of multiple hotels within Starwood Hotels & Resort's Brand. The Global Sales Offices is also assigned to nine geographic areas throughout North America. The Global Sales Offices use the same sales process as The Westin Bayshore Resort & Marina. To enable these two parallel sales teams to operate they all have access to direct marketing systems and customer databases. The Global Sales associates are also assigned group room quotas that must originate from their geographic areas. Unlike hotel sales associates, Global Sales associates are not assigned any specific goals to supply individual hotels with business.

The Westin Bayshore Resort & Marina's personal selling strategy and process is effective in allowing The Westin Bayshore Resort & Marina's sales managers to develop the necessary relationships to sell its services. The personal relationships that sales managers develop with their clients are a key determinant of a sales manager's ability to obtain new business leads. Having the sales managers on-site at the property allows them to develop the intimate property knowledge that clients need in order to become confident with The Westin Bayshore Resort & Marina's product. In addition, having sales managers on-site at The Westin Bayshore Resort & Marina allows them to draw upon the resources of The Westin Bayshore Resort & Marina's associates to help them sell the property. During the crucial site inspections, they are able to use their close working relationships with managers and associates of The Westin Bayshore Resort & Marina to highlight The Westin Bayshore Resort & Marina's advantages.

Having the sales manager on-site at The Westin Bayshore Resort & Marina also provides accountability and a sense of urgency for sales managers to meet their quotas. This sense of urgency stems from the fact that sales managers that are located in a hotel experience can experience first hand the amount of business they are bringing into The Westin Bayshore Resort & Marina. If sales managers were moved to remote offices away from The Westin Bayshore Resort & Marina, they would lose this direct connection to The Westin Bayshore Resort & Marina, and the sense of urgency surrounding their sales quotas would be lessened.

Starwood Hotels & Resort's Global Sales Office network is neither a reliable, nor an effective source of conference business for The Westin Bayshore Resort & Marina. The parallel market assignment of the Global Sales Offices and the individual properties

frequently results in sales managers from each office fighting over who will get credit for a sales lead. In addition, the absence of specific individual property group room night quotas provides little motivation for Global Sales associates to book group clients at The Westin Bayshore Resort & Marina.

This problem is exacerbated by the fact that Global Sales incentives are biased in favour of United States-based hotels because of the lower value of the Canadian dollar. The Global Sales Office incentives are based on a percentage of total revenue paid to The Westin Bayshore Resort & Marina, converted into USD. Based on this formula, Global Sales Associates have a higher incentive to book business at the hotel property with the highest dollar amount. Although in dollar terms, Canadian gross hotel sales are similar those of the US, the conversion to USD decreases the total incentive paid to Global Sales Associates. Therefore, given a choice, Global Sales associates attempt to locate all business leads in the high-rate United States cities, as opposed to Canadian cities, in order to maximize their incentive payouts.

3.5.1.3 Yield Management Process

Responsibility for carrying out the yield management process is shared between Starwood Hotels & Resorts corporate office and The Westin Bayshore Resort & Marina. Yield management in the hotel industry refers to the setting of the guest room rates based on the expected demand levels of a hotel. Hotels continuously adjust their guest room rates according to changing demand forecasts, a process known within the hotel industry as yielding rates. The corporate office chooses the relative placement of a hotel's overall room rates within a city. The Westin Bayshore Resort & Marina manages the physical manipulation of the rates necessary to meet the objectives set by the corporate office.

The Director of Revenue Management leads The Westin Bayshore Resort & Marina's rate management process. The Director of Revenue Management reports to the General Manager and is a member of The Westin Bayshore Resort & Marina's Executive Committee. The Director of Revenue Management's responsibilities include continuous analysis of The Westin Bayshore Resort & Marina's guest room rate strategies, The Westin Bayshore Resort & Marina's in house reservations department and The Westin Bayshore Resort & Marina's relationship with Starwood Hotels & Resort's Central Reservations division, STARS. The most important function of the Director of Revenue Management is the continuous analysis of The Westin Bayshore Resort & Marina's rate strategies. Specifically, the Director of Revenue Management analyzes the guest room rates of all market segments two weeks from the current date forward five years, and in some cases as far as 10 years out. These long timelines are required because of the long contractual lead times associated with group business. Due to the planning and logistic complexities of large events, such as the 2010 Olympics, group contracts can be signed as far as 10 years in advance.

Table 9: The Westin Bayshore Resort & Marina's Guest Room Market Segments

Transient

Retail
TMC/Consortia
Corporate Volume LRA
Corporate Volume NLRA
Government
Package
Restricted
Wholesale/FIT
Qualified Discount
Opaque
SPG Award

Group

Group-Corporate
Group-Association
Group-SMERF
Group-Government
Group-Tour & Travel

Contracted

Contract-Airline
Contract-Other

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The Director of Revenue Management also analyses guest room demand for each of The Westin Bayshore Resort & Marina's market segments on a continuous basis. The Director of Revenue Management completes this analysis using a variety of statistical analysis packages that track the daily demand of individual market segments. These statistical analysis packages include proprietary Starwood Hotels & Resorts yield analysis software, property management system databases and historical data gathered by The Westin Bayshore Resort & Marina. In addition to monitoring The Westin Bayshore Resort & Marina's demand, the Director of Revenue Management tracks resistance to

³⁶ The Westin Bayshore Resort & Marina's 2004 Year End Financial Statements

rate in each of the market segments on a daily basis. Both the demand and resistance factors are compared to The Westin Bayshore Resort & Marina's previous booking history, referred to as monitoring The Westin Bayshore Resort & Marina's booking pace. A successful Director of Revenue Management is able to identify on a day-to-day basis opportunities to adjust room rate that will allow The Westin Bayshore Resort & Marina to create localized compression conditions. During a compression situation, demand for The Westin Bayshore Resort & Marina's guest rooms exceeds supply, and The Westin Bayshore Resort & Marina is able to charge a premium rate for its guest rooms. Starwood Hotels & Resorts has stated that it believes that a successful Director of Revenue Management is capable of adding up to \$1 million dollars in incremental revenue to a hotel.³⁷

The Westin Bayshore Resort & Marina's REVMAX committee sets the rate Strategy of The Westin Bayshore Resort & Marina. The REVMAX committee is comprised of a cross section of management associates from The Westin Bayshore Resort & Marina that bring diversity of perspectives to the committee. Typically, the REVMAX committee members include the General Manager, Director of Operations, Director of Revenue Management, Director of Sales & Marketing, Tour & Travel Sales Manager, Reservations Manager, Controller and the Director of Six Sigma. The REVMAX committee meets on a weekly basis, at which time the Director of Revenue Management presents an updated analysis package to the committee. The REVMAX committee debates the Director of Revenue Management's findings, and then recommendations and chooses an updated rate and occupancy strategy for The Westin Bayshore Resort &

³⁷Starwood Hotels & Resorts, Rooms University, Reference Material

Marina. Following the REVMAX meeting, the Director of Revenue Management makes any necessary changes to The Westin Bayshore Resort & Marina's various rate categories for its guest room distribution system.

3.5.2 Pre-Arrival Experience

The Pre-Arrival Experience or inbound logistics are comprised of four experience sub-categories that guests use prior to arrival at the hotel property. The four sub-categories are the: reservations booking experience, pre-meeting experience, pre-outlet experience and miscellaneous experiences. Ownership of the tasks performed within these categories is explained in the following paragraphs.

Responsibility for reservation tasks belong to either Starwood Hotels & Resort's corporate office, The Westin Bayshore Resort & Marina, third party vendors or can be shared between The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate office. The reservation experience refers to the services a guest receives when they are making their reservation for a hotel stay. The method a guest chooses to make their reservation determines which party is responsible for providing the reservation experience to the guest. Reservations that are made using Starwood Hotels & Resort's Internet booking site are handled exclusively through Starwood Hotels & Resort's corporate office. Reservations that are made using the telephone system can be handled by both The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate central reservations call centre. Travel agents are third party vendors to The Westin Bayshore Resort & Marina and are responsible for any reservations they make.

Responsibilities for the pre-meeting experience are assigned to both The Westin Bayshore Resort & Marina and third party vendors. The pre-meeting experience describes the set of services that are provided to hotel clients that use The Westin Bayshore Resort & Marina's meeting and conference facilities. Meeting services can be physically located on or off a hotel's property. In the hotel business, these events are referred to as on-site or off-site events, respectively.

The on-site event portion of the meeting experience is the sole responsibility of The Westin Bayshore Resort & Marina. Typically, on-site services centre around the logistical planning of the meeting as it pertains to meeting room set-ups, meals and guest room quantity needs. The key determinate of the task ownership is the client requirement that the on-site service representative must be located on the hotel site and be empowered to immediately respond to a client's requests. In order to meet these requirements, The Westin Bayshore Resort & Marina remains responsible for all components of the meeting experience.

Responsibility for both off-site meeting and destination management tasks belongs to third party vendors. Typically, off site events include special events and meals that are conducted in locations that do not belong to The Westin Bayshore Resort & Marina. Destination management includes all the logistics and travel planning for meeting attendees. Third party vendors control both of the experiences because they are offered away from The Westin Bayshore Resort & Marina site and the services are perceived to be outside of The Westin Bayshore Resort & Marina's scope.

Responsibility for the pre-outlet experience is assigned exclusively to The Westin Bayshore Resort & Marina. The primary task associated with the pre-outlet experience is

the reservation services a guest receives when they book food outlet reservations in advance.

The Westin Bayshore Resort & Marina is responsible for all of the miscellaneous services with the exception of training and development of The Westin Bayshore Resort & Marina's associates, which, are shared between Starwood Hotels & Resort's corporate office and The Westin Bayshore Resort & Marina. Responsibility for receiving and storage, scheduling, cleaning services and maintenance is assigned to The Westin Bayshore Resort & Marina because these services are integral to its day-to-day operations. Training and development have become a shared responsibility of The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate office due to a gradual shift away from customized property training programs toward standard chain-wide training.

3.5.2.1 On-Site Event Planning

As a meeting destination hotel, the on-site event planning experience is an important task for The Westin Bayshore Resort & Marina because it ensures The Westin Bayshore Resort & Marina is able to host a successful conference for its clients. The on-site event-planning phase is key because all of the other hotel departments will draw upon the information created in this phase to service a client during their stay at The Westin Bayshore Resort & Marina. The on-site event planning process includes the following steps: file turnover, Convention Service Manager introduction, rooming list entry, meeting room list, coordination of third parties, food and beverage requirement and group resume creation. The following paragraphs will describe this process, and evaluate which components are successful.

The first step during the on-site event planning stage is the transfer of the sales file from the Sales Manager to the Convention Service Manager who will be responsible for planning the on-site event portion of the client's conference. The file turnover is generally conducted during a formal meeting between the Sales Manager and the Convention Service Manager. During this meeting the Sales Manager will provide the Convention Service Manager with the complete contract file and review the contract with them. They will also discuss any concerns of the client, or potential problems that The Westin Bayshore Resort & Marina may have hosting the program. For example, the Sales Manager may mention that the client preferred another hotel, but was forced to use our hotel due to a lack of space at the other hotel. During this meeting the Convention Service Manager will obtain all of the necessary background information that they will need prior to actually speaking with the client about the event.

The next stage is the formal introduction of the Convention Service Manager to the client. This introduction can be made as far as one year in advance of a large conference. This is an extremely important step because of the strong personal relationships that are necessary between the Sales Managers and the clients to secure future business. There is additional incentive for the Convention Service Managers to develop strong working relationships with clients because they frequently receive large gratuities from the clients following successful conference programs. The working relationship between the Convention Service Managers and the client is also important because of the complicated information exchanges that will occur between them. To further complicate matters, the client may be passing responsibility for the event over to a meeting planner. In this case, the formal introduction between the Convention Service

Manager and meeting planner is key event that can affect the quality of the working relationship between The Westin Bayshore Resort & Marina and the client. The Convention Service Manager will make several follow-up calls throughout the year in order to maintain a working relationship with the client.

Three months prior to the event, the Convention Service Manager will contact the client to obtain the guest room details and open The Westin Bayshore Resort & Marina's reservation system to accept the group's reservations. This step requires the Convention Service Manager to ensure that the correct quantity of rooms is made available to the client at proper room rates. In some cases the client may request an addition to, or a reduction in their room count. In the event of an addition to the contracted room count, the Convention Service Manager and the Sales Manager must amend the contract to include the additional rooms. These amendments may include a rate change for the additional rooms, depending on overall room availability at The Westin Bayshore Resort & Marina. In cases when the clients wish to reduce the room count, the Convention Service Manager must facilitate the collection of attrition fees from the client, while still maintaining a working relationship with them. This situation can be very stressful as clients are aware that they will be charged attrition fees prior to receiving The Westin Bayshore Resort & Marina's services. Here the management of the guest room details is of particular importance to The Westin Bayshore Resort & Marina because of the high profit margins associated with guest room revenue. Completion of this step also provides the Rooms Division operating departments with the information necessary for organizing labour and materials for the client's conference.

The Convention Service Manager's next task is to obtain the final meeting room details from the clients. This stage usually involves negotiation between the client and the Convention Service Manager on how many hours prior, to and after their event they will require access to their meeting rooms. They will also negotiate the size and quantity of the meeting rooms they require. Although The Westin Bayshore Resort & Marina always reserves the right to relocate customers to different rooms, frequently customers are vocal over which rooms they wish to occupy during their events. In cases where the customer has control over all of The Westin Bayshore Resort & Marina's meeting space, this is not a problem. However, in cases where the customers are only using a portion of The Westin Bayshore Resort & Marina's meeting space, The Westin Bayshore Resort & Marina frequently needs to limit the location and quantity of space available to any individual client so that it has the option of selling the remaining space to another customer.

The coordination of the third party vendor requirements is the next stage that occurs in the pre-event meeting planning process. This step normally occurs approximately three months in advance of the conference. During this stage the Convention Service Manager will determine the third party supplier requirements of their client. Following this, the Convention Service Manager will attempt to sell the services of The Westin Bayshore Resort & Marina's preferred third party vendors. Selling the services of The Westin Bayshore Resort & Marina's third party vendors is important, as they will provide The Westin Bayshore Resort & Marina with commissions. Vendors The Westin Bayshore Resort & Marina does not have relationships with do not provide any commissions to The Westin Bayshore Resort & Marina. The Westin Bayshore

Resort & Marina has preferred partners for most of its commonly sought after services. Typically, these services include, Destination Management Companies, Convention Exhibit firms, Audio Visual Companies and decorating firms. After obtaining a list of all the third party providers, the Convention Service Manager contacts each of the firms and coordinates the logistical requirements of the various firms on behalf of The Westin Bayshore Resort & Marina and the client.

The next step the Convention Service Manager completes in the pre-event planning process is the completion of all food and beverage menus for the program. The Convention Service Manager will work with the client to design menus that fit within the client's overall contracted food and beverage budget. During this process the Convention Service Manager will attempt to up-sell higher quality items, or add additional events to increase the overall revenue for The Westin Bayshore Resort & Marina. Convention Service Managers are motivated to increase the food and beverage items sold to clients because they receive incentive bonuses for selling incremental food and beverage revenue to clients. After the Convention Service Manager creates the final menus with the client, they create the Banquet Event Orders for The Westin Bayshore Resort & Marina. Following the creation of the Banquet Event Orders, all scheduling and purchasing by the food and beverage operating department is completed.

The final step a Convention Service Manager must complete prior to the client's arrival at The Westin Bayshore Resort & Marina is the creation of the group resume. The group resume is a summary for the use of the client and The Westin Bayshore Resort & Marina, describing in detail all of the services that The Westin Bayshore Resort & Marina will provide from each department during their conference program. The group

resume is distributed approximately two weeks prior to the group's arrival to allow The Westin Bayshore Resort & Marina enough time to prepare the client's service requests.

The Westin Bayshore Resort & Marina's on-site event planning stage has been extremely successful for The Westin Bayshore Resort & Marina. From the client's perspective, they have rated this portion of the meeting experience high, providing a score of 4.5 out of 5 on Starwood Hotels & Resort's 2004 meeting planner satisfaction survey question. However, from The Westin Bayshore Resort & Marina's perspective, it maintains only a small number of key Convention Service Manager's, who in turn have strong relationships with its clients. The departure of a Convention Service Manager from The Westin Bayshore Resort & Marina could put The Westin Bayshore Resort & Marina at risk of having their client follow the Convention Service Manager to their next hotel.

The Westin Bayshore Resort & Marina experiences two reoccurring challenges with its group clients. First many groups who are unable to meet their contracted room block obligations. Second, and as a result of the first problem, Convention Service Managers are often hesitant to inform The Westin Bayshore Resort & Marina of this impending problem. Convention Service Managers are hesitant to inform The Westin Bayshore Resort & Marina of this problem because of the conflict of interest that develops as a result of the strong personal relationships they develop with their clients. Thus, instead of informing The Westin Bayshore Resort & Marina when a client's room pickup trending is behind pace, Convention Service Manager's frequently sympathize with the clients and attempt to cover up the poor pace problem. As a result, The Westin Bayshore Resort & Marina frequently finds itself surprised by a client's poor guest room

pickup. The Convention Service Manager also ends up in the awkward position of being forced to warn their clients that they must remit attrition charges. The conflict of interest that Convention Service Managers are subject to is a serious threat to one of The Westin Bayshore Resort & Marina's principle profit-generating departments.

3.5.3 In-House Experience

Starwood Hotels & Resorts has recognized that its services are delivered together in bundles that guests perceive as single events. For example, when a guest arrives and checks into a hotel they use a combination of services from doormen, valet parking, luggage handling, concierge, accounting, housekeeping and guest services. However, the guest often views all of these services as one event, their arrival at the hotel.

Recognizing that guests experience hotel services in this manner, Starwood Hotels & Resorts has identified all of the major experience bundles and named them core service experiences. Although this might appear to be a small factor, this concept is new to the hotel industry.

Each of the four primary experiences is comprised of a combination of services provided by associates from all the departments of the hotel. The composition of these four primary experiences will be explained in the following paragraphs.

The arrival experience component of the in-house experience is considered the most important portion of a hotel guest's purchase. Internal studies of Starwood Hotels & Resorts have shown that the first and last five minutes of a guest's hotel stay have the largest influence over the overall guest satisfaction score.³⁸ The individual services

³⁸ Starwood Hotels & Resorts, ARRIVAL Process Training, Training Reference Material, January 2005

provided during the arrival experience are guest services, up-sell, service recovery, luggage handling, housekeeping and engineering.

The guest room experience is the major component of any hotel guest's stay. Generally, the in-room guest experience consumes the largest amount of time during the on-site experience. During the guest room experience hotel guests will experience the following bundle of services: housekeeping, room service, honour bar, engineering and guest services.

Although the company has recognized that guests experience the hotel in service bundles, the hotel remains organized in a pyramid format, with the exception of the Service Express Department. Services are delivered to guests from within this vertically oriented organizational structure. For example, during the check-in process, a guest passes between the doorman, the front-desk and the bellmen. In the in-room experience, the guest receives services from the housekeeping, mini-bar, in-room dining and engineering departments. During the check out process the guest passes through the same departments as the arrival process, but in reverse.

The Service Express Department is the only department within The Westin Bayshore Resort & Marina that has been organized using a horizontal format. The Service Express Department was created in an attempt to maximize the utilization of staff resources, as opposed to aligning it with the guest experience bundles. As a result, the Service Express Department services a portion of the arrival, the in-room experience and the departure experience. Although this department is structured horizontally, it is not aligned with the guest service experience. The Service Express Department does not reduce the number of associates and departments a guest is passed between, but rather

decreases the labour costs associated with servicing a guest by decreasing the total number of associates on staff at any given time.

3.5.3.1 Laundry Supplier

The Westin Bayshore Resort & Marina's laundry vendor is a key supplier because The Westin Bayshore Resort & Marina cannot operate unless it receives daily guest room and food & beverage linen deliveries. The Westin Bayshore Resort & Marina does not have the ability to launder its own linen, but is obligated as a luxury property to provide its guests with clean linen each day. Although a portion of its guests choose to forego this service, The Westin Bayshore Resort & Marina still launders more than 60% of occupied guest rooms and all of its soiled food and beverage linens on a daily basis. The Westin Bayshore Resort & Marina only maintains four linen sets per bed and a maximum of three table linens changes per table. This means that during high occupancy periods it must have dirty linen picked up and exchanged for clean linen on a daily basis. If The Westin Bayshore Resort & Marina does not receive its daily linen exchange it will experience clean linen shortages within 24 hours. A clean linen shortage could prevent it from selling guest rooms and food services to its customers.

The Westin Bayshore Resort & Marina also relies on the laundry to protect its inventory from loss and damage during the laundry process. The replacement cost for The Westin Bayshore Resort & Marina's linen is estimated at approximately \$500,000 CDN. During high occupancy periods it is normal for The Westin Bayshore Resort & Marina to launder its entire inventory every 48 hours. If The Westin Bayshore Resort & Marina's laundry vendor fails to maintain its equipment correctly, they could destroy The Westin Bayshore Resort & Marina's entire linen supply in less than four days. Similarly,

if The Westin Bayshore Resort & Marina's laundry vendor has poor control of its delivery and pre-processing processes, it could lose The Westin Bayshore Resort & Marina's linen supply or mix its linen supply with that of another hotel. A strong working relationship with The Westin Bayshore Resort & Marina's laundry vendor is crucial to extending the life of its linen, and preventing linen inventory losses.

3.5.4 Food and Beverage Outlets

The outlet experience during a guest's hotel stay consists of any food and beverage services that are consumed when they choose to dine in one of The Westin Bayshore Resort & Marina's three food, outlets. The services offered to these customers include food preparation, food production, food and beverage delivery, and stewarding and service recovery

3.5.5 Food Suppliers

The relationship between The Westin Bayshore Resort & Marina and its food suppliers is also an important relationship. As The Westin Bayshore Resort & Marina is primarily a meeting and conference hotel, one of its core services is providing breaks and meals to conference attendees. In order to exceed its customer's expectations for both quality and quantity, The Westin Bayshore Resort & Marina requires that food be delivered a minimum of three days a week. Since The Westin Bayshore Resort & Marina's clients are not obligated to provide final food order counts until 48 hours before an event, food orders are typically made up and adjusted on a daily basis. In many instances surprise events, or special food item orders require extraordinary food deliveries to be made. From the customer's perspective, a hotel that runs out of food and

is unable to feed its guests is one of the most serious mistakes that it can make, and one from which it cannot recover. Maintaining good relationships with food suppliers that enables The Westin Bayshore Resort & Marina to meet its food delivery flexibility requirements is key to The Westin Bayshore Resort & Marina's success.

3.5.6 Departure Experience

The services offered to customers in the departure experience portion of the hotel value chain are the exclusive responsibility of The Westin Bayshore Resort & Marina, with the exception of The Westin Bayshore Resort & Marina's shuttle service. The departure experience of The Westin Bayshore Resort & Marina is comprised of four primary experiences: guest services, billing and payment, concierge, luggage handling and shuttle service experiences. The Westin Bayshore Resort & Marina has been assigned exclusive responsibility for guest services, billing and payment, concierge and luggage handling experiences because of the high weighting that hotel customers place on the departure experience as a component of the overall hotel experience. As mentioned earlier, internal research at Starwood Hotels & Resorts has determined that 95% of a hotel guest's overall satisfaction with a hotel's service is determined in the first and last five minutes of their hotel stay.³⁹ The high importance placed on the departure experience has forced Starwood Hotels & Resorts to ensure that all associates who deliver these services are empowered to respond to the guest's requirements. To ensure that associates have the appropriate resources to exceed customer expectations during the departure experience, The Westin Bayshore Resort & Marina has remained responsible for the departure experience. The Westin Bayshore Resort & Marina's shuttle service is

³⁹ Ibid

a complimentary transportation service available to guests of The Westin Bayshore Resort & Marina. The shuttle service has been outsourced to a third party because the majority of the delivery of this service occurs away from hotel property.

The meeting departure experience component of the departure experience is only available to customers that attended conferences and meetings held within The Westin Bayshore Resort & Marina. The suite of services offered to these guests includes billing and payment, meeting, parcel and shipping, and post-event meeting services.

Hotel customers that dine in one The Westin Bayshore Resort & Marina's three food outlets experience the outlet departure experience. The services offered to these customers during the outlet departure experience are billing and payment activities.

3.5.7 Post-Stay Experience

A combination of Starwood Hotels & Resort's corporate office, The Westin Bayshore Resort & Marina and third party vendors are responsible for the various tasks that comprise the post-stay experience. The post-stay experience is comprised of three core experiences: the post guest room stay experience, post meeting experience, and post outlet experience. Task ownership is explained in the following paragraphs.

Guest room experience surveys for all post guest room stays and post-meeting experiences are assigned to third party vendors because neither The Westin Bayshore Resort & Marina, nor Starwood Hotels & Resort's corporate office, have the technical capabilities necessary to accurately measure or compile these results.

The post-stay communication to guests is a shared responsibility between The Westin Bayshore Resort & Marina and Starwood Hotels & Resort's corporate office.

This shared responsibility is a result of the overlapping scope between Starwood Hotels & Resort's Global Sales Office and The Westin Bayshore Resort & Marina's sales office. In their mandates to solicit existing customers for new business, both have access to The Westin Bayshore Resort & Marina's database of customers and regularly send post-stay communication to them.

3.5.8 Service Recovery

Service recovery is the exclusive responsibility of The Westin Bayshore Resort & Marina. Hotels have assumed responsibility for this task out of a practical requirement that any problem resolution, monetary or other, be handled at the property of origin. This is necessary because any refunded monies, or service commitments that are incurred must be registered on the financial records of the property at which the bill originated. As a result, all properties remain responsible for their own problem resolution services.

3.6 Key Supplier Activities & Relationships

Key supplier activities and relationships are best defined as those that directly supply, or affect the core competencies of The Westin Bayshore Resort & Marina. Based on this description, The Westin Bayshore Resort & Marina's key suppliers are meeting planners, Internet reservation companies, audio-visual companies, guest survey companies, laundry companies and food supply companies.

3.7 Impact of Technological Changes

3.7.1 Internet

The two most significant technological changes that have affected The Westin Bayshore Resort & Marina are the emergence of the Internet and the decreasing costs of computer technology. The Internet has caused changes in The Westin Bayshore Resort & Marina's distribution network, reservation process, sales process, and communication process. The decreasing costs of computer technology have allowed The Westin Bayshore Resort & Marina to obtain new customer relationship management and environmental control systems. The following paragraphs will outline these changes.

The Internet has facilitated the emergence of new guest room wholesale companies that use the Internet as their distribution channel. These companies have provided customers with the ability to instantly compare prices on similar hotel properties. These new wholesale companies have also begun to morph into online travel agencies, providing their customers with complete travel packages including transportation and accommodation prices. Some of these new Internet sales sites are set up as online auctions, providing their customers with luxury hotel accommodation at heavily discounted prices. The hotel industry currently fears that it is losing the loyalty of its guests to these new Internet hotel sales sites.

The Internet has also brought about a complete change in The Westin Bayshore Resort & Marina's reservation process. Previously, hotel reservations were completed on the telephone using either Starwood Hotels & Resort's central reservation service or The Westin Bayshore Resort & Marina's in-house reservation department. The Internet has allowed Starwood Hotels & Resorts to host a reservation website, on which

customers make their own reservations. The new Internet websites are inexpensive to operate and have allowed both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina to reduce the size of their reservations departments.

The Internet has also provided corporate customers with the opportunity to force hotel companies to change their sales processes. Some large clients, such as Bell Telephone have hosted online, reverse auctions as opposed to the sealed bid auctions they used to use. This new process has forced The Westin Bayshore Resort & Marina to compete on price in order to win contracts from these clients.

A reduction in mobile phone long distance charges is forcing The Westin Bayshore Resort & Marina to reduce the price of long distance telephone usage. The Westin Bayshore Resort & Marina's telephone revenues have declined an average of 10% per year in the year 2004 and 2005. The Westin Bayshore Resort & Marina predicts that it will be forced to provide complimentary telephone services to guests within the next three years.

The reduction in the cost of computer technology has allowed The Westin Bayshore Resort & Marina to install environmental control systems that regulate the temperature of The Westin Bayshore Resort & Marina's meeting rooms and common spaces. This technology has allowed The Westin Bayshore Resort & Marina to reduce its energy usage and therefore reduce its energy expenses. It is likely that a similar cost-effective technology will be available to regulate the guest room environment in the near future.

3.8 Core Competency

A company's core competency is defined as the activity or set of activities that it would never outsource⁴⁰. Based on this definition, Starwood Hotels & Resort's core competency is real estate portfolio management.⁴¹ The Westin Bayshore Resort & Marina's core competencies are its ability to maximize the value of its location and its ability to co-ordinate service delivery to guests.⁴² The following paragraphs will outline the location of the core competencies within Starwood Hotels & Resorts, how its core competencies are sustained and how its core competencies provide it with a competitive advantage.

3.8.1 The Hotel Management Company

Starwood Hotels & Resort's core competency is real estate management. As a real estate manager, Starwood Hotels & Resorts is able to maximize the value of its real estate holdings. Real estate management is Starwood Hotels & Resort's core competency because it is the single function within the corporation that Starwood Hotels & Resorts would be unwilling to forego.

Starwood Hotels & Resort's real estate management competency is sustained using the following factors: real estate investment strategies; maintaining financial analysis capabilities; and, having to control its customers. The following paragraphs will describe how Starwood Hotels & Resorts uses these factors to sustain its core competency.

⁴⁰ Ed Bukszar, "Strategic Management" (EMBA Lecture Series, Simon Fraser University, Vancouver, BC, March 2005)

⁴¹ Brian Mayer (Vice President of Six Sigma & Operations Innovation), Starwood Hotels & Resorts, interview by D'Arcy Coon, July 2005

⁴² Ibid

One of the methods that Starwood Hotels & Resorts is able to use to sustain the management of its real estate portfolio is the use of a dedicated real estate division within the company. Starwood Hotels & Resorts created its real estate division in 2003, after recognizing the importance of having the ability to actively manage its own real estate portfolio. By having a dedicated real estate division, Starwood Hotels & Resorts is able to evaluate the financial advantage of purchasing, improving or disposing its real estate assets on an ongoing basis. An example of Starwood Hotels & Resort's recognition of the importance of this division is provided by the company's 2003 business strategy. In the company's annual report it explicitly states that,

“The Company's primary business objective is to maximize earnings and cash flow by increasing the profitability of the Company's existing portfolio; selectively acquiring interests in additional assets...”⁴³.

The report goes on to state Starwood Hotels & Resorts will,

“...maximize the value of its owned real estate properties, including selectively disposing of non-core hotels and 'trophy' assets that may be sold at significant premiums.”

The main function, therefore, of Starwood Hotels & Resort's real estate division is to assist the company in leveraging its core competency of real estate management to provide maximum value to the company.

Starwood Hotels & Resorts also sustains its core competency by maintaining its ability to collect and analyse financial analysis through its Finance Department. In order to maximize the value of its real estate assets, Starwood Hotels & Resorts must be able to evaluate the financial performance of its own real estate assets and make comparisons

⁴³ Starwood Hotels & Resorts, Year End Report, March 2003, Page 12
http://www.starwoodhotels.com/corporate/investor_relations.html

with other competitors. As a hotel management company, Starwood Hotels & Resort's Finance Department is also able to gather financial information on all of its managed assets. This allows it the unique opportunity of being able to see the financial information of hotels that might otherwise belong solely to its competitors. Having access to financial information allows Starwood Hotels & Resorts to perform additional comparative financial analysis on its own real estate assets. By maintaining the ability to perform ongoing financial analysis on both the managed and owned assets within its portfolio, Starwood Hotels & Resorts is able to gain insider knowledge on the hotel industry. Starwood Hotels & Resorts uses the insider knowledge it collects in its Finance Department to provide its real estate division the information it needs to manage Starwood Hotels & Resort's real estate portfolio.

Starwood Hotels & Resorts also sustains its ability to manage its real estate portfolio by maintaining a large distribution network. This quality of the aforementioned insider knowledge is improved by increasing the volume and geographic distribution of the data collection. Thus, Starwood Hotels & Resort's ability to increase the number of owned and managed hotels in its portfolio is directly correlated with the quality of its financial analysis. Starwood Hotels & Resorts has recognized the importance of its hotel distribution and has attempted to increase it by adding to its managed hotel portfolio. By increasing its hotel distribution, Starwood Hotels & Resorts is able to increase the quality of its insider knowledge and better support its real estate management competency.

Another factor that allows Starwood Hotels & Resorts to support its real estate management core competency is its ability to control its customers. Starwood Hotels & Resort's ability to maximize its real estate holdings is contingent on its ability to sell

hotels at a premium to hotel buyers. Starwood Hotels & Resorts is able to increase the value of its hotels by increasing the revenue streams at its owned hotels. It does this by directing more customer volume to its owned hotels. Starwood Hotels & Resort's ability to control customer movement, as described in the industry analysis, allows it to direct additional sales volumes to its owned hotel properties. Having the ability to inflate sales volumes at its owned hotels allows Starwood Hotels & Resorts to increase the sale price of the hotel. Starwood Hotels & Resort's ability to control its customers allows it to increase the value of its hotels and therefore allows the company to sustain its ability to manage its real estate portfolio.

3.8.2 The Westin Bayshore Resort & Marina

The Westin Bayshore Resort & Marina's core competency is its ability to leverage the greatest financial value through management of its location. This best describes The Westin Bayshore Resort & Marina's core competency because the ability to manage optimal use of The Westin Bayshore Resort & Marina's location is the one thing that allows The Westin Bayshore Resort & Marina to maximize its profit.

The Westin Bayshore Resort & Marina is able to sustain its core competency of leveraging the greatest financial value out of its location through its strategic real estate management, sales department and hotel operations. An explanation of these factors is contained in the following paragraphs.

The Westin Bayshore Resort & Marina is able to sustain its ability to achieve the greatest financial value out of its location by maintaining a management team on the property that is capable of constantly evaluating the optimal use of The Westin Bayshore

Resort & Marina's location. The Westin Bayshore Resort & Marina maintains three senior management positions at the property, the General Manager, the Controller and the Director of Six Sigma. They are responsible for continuously evaluating and changing The Westin Bayshore Resort & Marina's product offering. For example, prior to 2000, The Westin Bayshore Resort & Marina's management team in cooperation with The Westin Bayshore Resort & Marina's owners concluded that The Westin Bayshore Resort & Marina should be converted from a transient-based hotel to a convention hotel in order to maximize the income-earning potential of the property. More recently The Westin Bayshore Resort & Marina's management team has converted portions of The Westin Bayshore Resort & Marina's lobby space to retail space and considered the financial value of converting restaurant space to meeting rooms. Having the ability to continuously evaluate the most profitable use of The Westin Bayshore Resort & Marina's real estate is one of the factors that allow The Westin Bayshore Resort & Marina to maximize the value of its location.

Another factor that allows The Westin Bayshore Resort & Marina to maximize the value of its location is The Westin Bayshore Resort & Marina's operation. The Westin Bayshore Resort & Marina's Operating Departments are responsible for coordinating the delivery of services to The Westin Bayshore Resort & Marina's guests. The successful coordination of the delivery of services to The Westin Bayshore Resort & Marina's guests provides The Westin Bayshore Resort & Marina with one of its principle products and provides an additional amenity that makes The Westin Bayshore Resort & Marina's location saleable to customers.

A third factor that contributes to The Westin Bayshore Resort & Marina's ability to maximize the value of its location is its ability to sell its product. Although The Westin Bayshore Resort & Marina occupies one of Vancouver's prime waterfront locations, it is not considered to be one of the prime hotel locations within the city. As a consequence, The Westin Bayshore Resort & Marina requires a sales force that is capable of selling The Westin Bayshore Resort & Marina's location and product package to prospective customers. Having the ability to sell directly to customers is one of the principle methods by which The Westin Bayshore Resort & Marina is able to successfully convey the merits of its waterfront location to large customers who are not familiar with The Westin Bayshore Resort & Marina's product.

3.9 Competitive Advantage

3.9.1 Hotel Management Company

3.9.1.1 Financial Analysis

Starwood Hotels & Resorts is able to use financial data collected from its owned and managed hotels to analyse the financial performance of those hotels and hotel markets in general. This creates a competitive advantage for Starwood Hotels & Resorts over its competitors, who do not have the ability to perform this type of financial analysis. Starwood Hotels & Resorts uses its financial analysis to determine if hotels are cash cows, questionable performers or poor performers. Starwood Hotels & Resorts develops a competitive advantage by disposing of hotels that are poor performers in exchange for those assets that are cash cows.

Starwood Hotels & Resorts also uses its data analysis, in addition to local market information purchased from consultants, to locate undervalued or underperforming hotel assets. After locating distressed or underperforming hotel assets Starwood Hotels & Resorts is then able to purchase these assets, at discounted prices. Starwood Hotels & Resorts then has the choice to recondition the assets, and sell them at a premium. Starwood Hotels & Resort's ability to perform financial analysis is a core competency that allows it to optimize its owned hotel portfolio with cash cow hotels and dispose of poor performing hotels. The ability to optimize its owned hotel portfolio using its financial analysis provides Starwood Hotels & Resorts with a key competitive advantage over its competitors.

3.9.1.2 Customer Control

Starwood Hotels & Resorts derives competitive advantage by reducing of its customer's power. Starwood Hotels & Resorts has been able to capitalize on the reduced customer power and negotiate favourable hotel management company contracts. Also, by extending its influence in all of the primary value chain activities, Starwood Hotels & Resorts has seized control of its guests from hotel owners and thereby reduced hotel owner power. Control of the customer has allowed Starwood Hotels & Resorts to organize its management services in such a way that larger lock-in effects are produced for its hotel management services. Starwood Hotels & Resorts has successfully removed customer information from the hotel properties. The result of this change in information storage is that hotel owners have lost access to what were previously their customer information databases. Currently, if a hotel owner chose to leave a management agreement and self manage own hotel, they would not have access to any previous

customer stay histories. The change in customer ownership has allowed Starwood Hotels & Resorts to create a lock-in affect, increasing its ability to negotiate more favourable hotel management contract with them.

3.9.1.3 Supplier Management

Supplier management provides competitive advantage to Starwood Hotels & Resorts by allowing it to reduce its hotels product costs, reduce product variation amongst its hotels and reduce the power of its owners. By choosing one set of specifications for hotel products, Starwood Hotels & Resorts is able to control the quality of its hotel products, as well as reduce the product variance between hotels. Starwood Hotels & Resorts is also able to obtain lower prices from suppliers by guaranteeing larger purchase quantities. Starwood Hotels & Resorts is able to reduce the power of hotel owners by removing the relationship development component of supply management from the hotel properties. Subsequently, hotel properties lose the ability to develop supplier relationships and source hotel materials independently. This forces hotel owners to be more reliant on Starwood Hotels & Resorts, thereby reducing hotel owner's power.

3.9.1.4 Six Sigma Program

Starwood Hotels & Resort's Six Sigma Program provides a competitive advantage by providing it with the ability to perform continuous improvement on the company's hotel operation. It also provides Starwood Hotels & Resorts with a mechanism to transfer its best practices to all of its hotels. Starwood Hotels & Resorts receives additional competitive advantage from its Six Sigma Program, as it is the only

hotel company with the ability to create and implement continuous improvement and process innovation to its hotel operations.

Starwood Hotels & Resorts has adopted the Six Sigma process improvement method as a mechanism for performing continuous improvement research on its hotel operations. The Six Sigma process improvement program evolved from the Total Quality Management program at Motorola during the early 1990's. Six Sigma is a disciplined, data driven, customer-focused business process analysis tool that uses a rigorous five-step analysis method to evaluate business processes. Starwood Hotels & Resorts uses the Six Sigma Program to evaluate its processes and find opportunities to improve them so that it is able to increase its profit either through cost savings or revenue growth. Starwood Hotels & Resorts has structured its Six Sigma Program so that it is capable of rapidly transferring the new processes designed by its Six Sigma project teams to the entire company.

An examination of Starwood Hotels & Resort's Improve Front Scheduling Project will provide insight into how Starwood Hotels & Resorts is able to leverage its Six Sigma Program to discover and then transfer process improvements and operation innovations to the entire company. In 2004 Starwood Hotels & Resorts assembled a Six Sigma project team, with the goal of improving its Front Desk Schedule Process at all of its North American owned and managed hotel properties.

Starwood Hotels & Resorts assembled a Six Sigma team that was structured for success within its organization. Starwood Hotels & Resort's Six Sigma teams are comprised of full-time project managers called Black Belts, Project sponsors, process owner team members and consultants. The Front Desk project was assigned two full

time Black Belts to work on the project. The project was sponsored was by a Regional Vice President to ensure that it received the necessary financial and resource support. Four process owner team members were chosen to participate in the team. The process owners where chosen to represent a wide selection of Starwood Hotels & Resort's North American hotels.

The Improve Front Desk Schedule project team used the Six Sigma process analysis methods to evaluate the existing Front Desk Schedule process and determine how it could be redesigned to provide Starwood Hotels & Resorts with more accurate scheduling. The Six Sigma method requires the use of data analysis. After the Improve Front Desk Schedule Team completed their data analysis, they were able to prove that hotel guest arrival and departure patterns could be predicted with a high degree of certainty. The Improve Front Desk Schedule Team used this information to design schedule software that enabled Front Office managers to accurately match staff schedules to guest movement patterns. After designing and piloting their new software, the Front Desk Schedule Team was able to provide Starwood Hotels & Resorts with a standardized front desk schedule process that included a new low-cost software package.

After proving that the new Front Desk Schedule process provided Starwood Hotels & Resorts financial savings, Starwood Hotels & Resorts used its Six Sigma resources to transfer the new Front Desk Schedule process to all of its owned and managed hotels throughout North America.

Starwood Hotels & Resort's Six Sigma Program is organized using a decentralized organizational model. The decentralized organizational model has allowed it to locate its Black Belts on-site at its owned and managed hotel properties. Locating

the Black Belts at the hotel properties allows Starwood Hotels & Resorts to not only use its Six Sigma Black Belt network as project managers, but also provides it with a property-based project distribution network. Having the ability to transfer its Six Sigma Projects across its entire organization allows Starwood Hotels & Resorts to complete projects that would be too expensive for individual hotels to consider.

Starwood Hotels & Resort's Six Sigma Process Innovation Program allows Starwood Hotels & Resorts to sustain process improvement within its hotel operations. It also provides Starwood Hotels & Resorts with the ability to transfer best practices to all of its hotel business units. This provides Starwood Hotels & Resorts with a competitive advantage over its competitors who have not implemented any continuous improvement programs, and who do not have the ability to transfer best practises throughout their various hotel operating units.

3.9.1.5 Real Estate Management

Starwood Hotels & Resorts derives competitive advantage from its real estate management capabilities by maintaining the ability to continuously determine the optimal use of its real estate portfolio, and, make rapid adjustments based on changing customer needs. For example, Starwood Hotels & Resorts has been able to detect the growing demand for Spa related activities within its hotels. In response, it has devoted hotel space to Spas in a number of its hotels. Having the ability to determine both the optimal use of hotel space and the flexibility to change the deployment of the space, allows Starwood Hotels & Resorts to maximize profits. This, in turn, provides greater profit to Starwood Hotels & Resort's hotel owners, increasing Starwood Hotels & Resort's management fee incentive payments.

3.9.2 The Westin Bayshore Resort & Marina

3.9.2.1 Facilitating Interactions

Effectively facilitating interactions between hotel associates and customers provides a competitive advantage to The Westin Bayshore Resort & Marina by allowing it the opportunities to improve customer loyalty. By providing multiple opportunities for customer feedback from, The Westin Bayshore Resort & Marina is able to gain real-time feedback on the performance of its products. In the event that a customer is unhappy with The Westin Bayshore Resort & Marina's products, it has the opportunity to correct the situation. Thus, by facilitating more interaction and therefore more feedback on The Westin Bayshore Resort & Marina's products, it is able to increase customer satisfaction and customer loyalty.

3.9.2.2 Coordinated Service Delivery

The Westin Bayshore Resort & Marina derives competitive advantage from coordinating its service delivery to meet its guest's service requests. This allows The Westin Bayshore Resort & Marina to meet the individual needs of a large number of customers. It also allows The Westin Bayshore Resort & Marina to differentiate its product offering by not limiting its services to just those that it can provide in-house. The result of being able to provide and coordinate service delivery of in-house and out-of-house services results in higher guest satisfaction and a more differentiated hotel service product offering.

3.10 Cultural of the Firm

3.10.1 Hotel Management Company

The culture of Starwood Hotels & Resorts is best represented by the following attributes: quality focused, competitive, and regulatory. Starwood Hotels & Resort's culture does not entirely support its strategy of providing an innovative differentiated product. The following paragraphs will explain Starwood Hotels & Resort's culture and its relationship to its business strategy.

Starwood Hotels & Resorts is a quality-focused organization that prides itself on providing industry-leading products to its customers. The various quality adherence programs demonstrate proof of Starwood Hotels & Resort's commitment to quality. Starwood Hotels & Resorts pays to have each of its hotels inspected by quality assurance companies. These companies ensure that the physical condition and cleanliness of the hotel meet Starwood Hotels & Resort's standards. Starwood Hotels & Resorts actually requires a compliance score of more than 80% on its inspections in order to maintain a Starwood Hotels & Resorts brand. Starwood Hotels & Resorts also publishes monthly customer survey results in which it gives special recognition to the top ten hotels in each of its brand categories. Starwood Hotels & Resort's belief in high quality is also demonstrated by including customer satisfaction ratings as part of all operating manager performance ratings. Each manager included on Starwood Hotels & Resorts operations incentive plan has a guest satisfaction survey score as a component of his or her incentive program. Starwood Hotels & Resort's commitment to high quality is firmly embedded in all levels of the organization.

Another attribute of Starwood Hotels & Resort's culture is the competitive nature embedded within the firm. Starwood Hotels & Resorts as an organization views the hotel business as a race for dominance that it wants to win. Starwood Hotels & Resorts is a publicly traded company and as such, has its financial performance evaluated against other hotel companies. The competition to make Starwood Hotels & Resorts the dominant hotel company is intensified by senior managers within the company who receive stock options. The constant and pervasive focus to drive up the stock price of Starwood Hotels & Resorts has created a culture of intense competition within the company.

Pervasive regulations are another attribute of Starwood Hotels & Resort's culture. As a large organization, Starwood Hotels & Resorts relies on regulations and procedures to operate. The wide geographical dispersion of the organization across the globe amplifies the requirement for comprehensive operating regulations and procedures. The requirement for regulations and procedures has also been increased due to Starwood Hotels & Resort's desire to reduce service and product variations amongst its properties. In general, Starwood Hotels & Resorts is highly reliant on regulations and procedures to govern its operations.

3.10.2 The Westin Bayshore Resort & Marina

The culture of The Westin Bayshore Resort & Marina is best represented by the following attributes: quality focused, respect for seniority, and a focus on lifestyle. The Westin Bayshore Resort & Marina's culture does not entirely support its strategy of providing an innovative differentiated product. The following paragraphs will explain The Westin Bayshore Resort & Marina's culture and its relationship to its strategy.

Similar to Starwood Hotels & Resorts, The Westin Bayshore Resort & Marina also has a culture that supports high quality. Associates of The Westin Bayshore Resort & Marina are generally those of long tenure who consider themselves professional hoteliers. As professional hoteliers, they take great pride in providing The Westin Bayshore Resort & Marina's guests with great service. Additionally, The Westin Bayshore Resort & Marina's management team has supported the culture of quality by continuously recognizing the associates who provide guests with exceptional service. The Westin Bayshore Resort & Marina makes use of Starwood Hotels & Resort's Shining Star Program in which associates receive thank you cards that qualify them for a quarterly incentive draw. The Westin Bayshore Resort & Marina also conducts an annual associate of the year competition in which associates who are nominated for Shining Stars throughout the year qualify to win an all expenses paid trip to one of Starwood Hotels & Resort's North American Resort properties. The Westin Bayshore Resort & Marina has a long established commitment to high quality that continues to be supported by associates and management.

Another cultural attribute of The Westin Bayshore Resort & Marina is respect for senior associates. As a unionized property, The Westin Bayshore Resort & Marina is obligated to recognize the importance of seniority amongst the hourly associates with respect to the scheduling of all shifts. This focus on seniority has extended itself into all aspects of the organization. Hourly associates refer to seniority rules to resolve problems. They feel strongly that shifts and days off, as well as promotions, should be awarded based on seniority. The focus on seniority has crept into all areas of the

organization and is one of the most prominent culture components present in The Westin Bayshore Resort & Marina.

Another cultural attribute of The Westin Bayshore Resort & Marina is the focus on lifestyle by most of its associates. Associates at The Westin Bayshore Resort & Marina are keenly focused on their families and personal lifestyles. Unlike the associates of other geographic regions, many associates view their jobs as a method by which to facilitate their lifestyles. This focus frequently results in different evaluation criteria with respect to workplace contentment and career growth. The Westin Bayshore Resort & Marina's associates are less likely to be interested in career growth than they are about ensuring they are able to maintain their personal lifestyles.

3.10.3 Key Culture Gaps Between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina

There are several differences between culture of Starwood Hotels & Resorts and that of The Westin Bayshore Resort & Marina that have the potential to create conflict between them. The first difference is Starwood Hotels & Resort's competitive and goal-focused culture versus The Westin Bayshore Resort & Marina's lifestyle focused culture. The second cultural difference between the two organizations is Starwood Hotels & Resort's focus on growth versus The Westin Bayshore Resort & Marina's culture of respect for long-tenure. The following paragraphs will outline these cultural gaps and explain how they could create conflict within the organization.

Starwood Hotels & Resort's culture of embracing competition and goal-setting is at odds with The Westin Bayshore Resort & Marina's lifestyle-based culture. At Starwood Hotels & Resorts associates are encouraged to view the hotel industry as a race

or even a battle, in which the victor will receive the spoils. This competitive focus creates a high energy, competitive environment in which individual achievement is recognized. In comparison, The Westin Bayshore Resort & Marina's culture places high emphasis on its associate's ability to establish and maintain a balance between their home and work. Associates are less concerned with the winning a game than they are with completing their work to pursue their own lifestyle agendas. This focus on lifestyle results in a culture that views Starwood Hotels & Resort's focus on competition as harsh and at odds with The Westin Bayshore Resort & Marina's associates own personal goals. The end result is underlying friction between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's associates.

The second difference between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina is Starwood Hotels & Resort's culture promotes growth as opposed to The Westin Bayshore Resort & Marina's culture of supporting long tenure. Starwood Hotels & Resort's culture values both the growth of the company and of the company's associates. As a goal orientated organization, Starwood Hotels & Resorts has set annual growth targets for the company. Starwood Hotels & Resorts has also developed a culture of personal development that supports the company's vision growth goals. Starwood Hotels & Resorts considers personal development any effort associates make to improve their education or social interaction styles. On an annual basis, Starwood Hotels & Resorts associates are required to set and implement individual development plans that focus on these issues. Throughout its organization, Starwood Hotels & Resorts has fostered a culture that values company and personal growth.

In contrast The Westin Bayshore Resort & Marina's culture is heavily weighted toward respect for tenure. This is reinforced by the fact that the majority of associates at The Westin Bayshore Resort & Marina are union members, and the union also embraces a seniority-based culture. As a result, associates of The Westin Bayshore Resort & Marina place a much higher value on long-tenure as opposed to meeting individual career goals. In fact individuals that excel at individual development are viewed as threats to The Westin Bayshore Resort & Marina's associates because they may be trying to circumvent their tenure-based seniority system. The result of the intermingling of Starwood Hotels & Resort's growth-based culture with The Westin Bayshore Resort & Marina's tenure-based culture has been a deeply routed distrust of each other's organizations.

3.10.4 Culture Clash/Support of Generic Strategy

3.10.4.1 Starwood Hotels & Resorts & The Westin Bayshore Resort & Marina

Both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's highly regulatory and process-driven cultures contribute to the maintenance of an organization that is inflexible, lacks creativity and is risk averse. These cultural attributes are at odds with the strategy of providing a highly differentiated, innovative product. The following paragraphs will present this argument.

Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's regulatory-based culture do not support a differentiated strategy. In order to successfully support a differentiated strategy, both organizations must be flexible and adaptable. Flexibility and adaptability are attributes that will enable them to rapidly design and implement innovative products. However, both organizations have cultures that value

rules and procedures, attributes that stifle creativity and innovation. In addition, their highly regulatory organizational frameworks also increase the risk of high resistance to change, which would slow or stall the implementation of innovative products.

Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's regulatory-based structures also do not provide the creative environments necessary to encourage the creation of new and innovative products. Creativity would be thwarted within their procedure-based organizations. Even if creative workgroups were established within their organizations, they would be unable to reach the critical mass needed to sustain them. Starwood Hotels & Resort's large procedural based organization would overwhelm the creative groups and eventually stifle their efforts.

Another aspect of both Starwood Hotels & Resort's and The Westin Bayshore Resort & Marina's cultures that does not support their generic strategy, is their tendencies towards risk-aversion. As large bureaucratic organizations both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina value consistent performance; this results in risk-aversion. Starwood Hotels & Resort's focus on consistent performance extends to both the financial performance of its business units and the individual performance of its associates. An example of Starwood Hotels & Resort's commitment to consistent and predictable performance is its incentive metrics for hotel Controllers. Starwood Hotels & Resorts has set a 2005 forecasting accuracy goal for hotel Controllers at plus or minus five percent. As a businesses unit of Starwood Hotels & Resort's, The Westin Bayshore Resort & Marina fully supports and participates in the Controller incentive program aimed at increasing forecasting accuracy. Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's commitment to predictable performance is

an example of risk-averse behaviour, as it exists throughout the company. This risk-averse behaviour does not support an innovation strategy because it does not require high levels of risk. The focus on predictable performance therefore is at odds with the innovation strategy.

Both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's highly regulatory and process-driven cultures result in organizations that are inflexible, stifle creativity and are risk-averse. As a result, their cultures do not support their generic strategy of providing innovative products that differentiate them from their competitors.

3.11 Organizational Structure

Starwood Hotels & Resorts uses a matrix style organizational grid as its fundamental organizational structure. The matrix is organized according to functional units at the primary level and then split into geographic regions. Starwood Hotels & Resorts uses a matrix structure to encourage more efficient communication throughout the organization so that it is better able to disseminate ideas throughout the company. A detailed description of both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's organizational matrices follow.

3.11.1 Starwood Hotels & Resorts

A Chief Executive Officer (CEO) and six other members of the company's senior operating committee lead Starwood Hotels & Resorts globally. The six senior operating committee members are the Chief Marketing Officer, Chief General Counsel, Chief Operating Officer, Chairman and CEO of Starwood Hotels & Resorts Vacation Ownership, Chief Marketing Officer and the Chief Financial Officer (CFO).

Starwood Hotels & Resorts has 10 functional divisions at the global level of the organization. The 10 divisions are Operations, Human Resources, Real Estate, Brand Management, Marketing, Sales, Legal, Finance, Starwood Hotels & Resorts Vacation Ownership and W Hotels. With the exception of the Operations Division, all of the divisions provide their services on a global basis to all of Starwood Hotels & Resort's owned, managed and franchise hotels. The Operations Division is divided geographically into the following global regions: North America, Asia Pacific, Europe, Africa and the Middle East and Latin America. Starwood Hotels & Resort's North American division is the largest division and has therefore been divided into nine separate regions.

The structure of Starwood Hotels & Resort's regional operations teams is intended to shadow the hotel operations they oversee. The regions are led by Vice Presidents of Operations, who have the following positions reporting to them: Regional Director of Sales and Marketing, Regional Director of Six Sigma, Regional Director of Revenue Management, Regional Directors of Human Resources, Regional Directors of Food and Beverage, Regional Directors of Procurement, Directors of Public Relations and Hotel General Managers. The Regional Controllers report directly to the CFO in order to avoid conflicts of interest with the Regional Vice Presidents. The Regional Controllers report on a dotted line basis to the Regional Vice Presidents.

Each of the regional directors that are considered to be shadowing hotel positions have their respective hotel level managers reporting to them on a dotted line basis. Therefore, Regional Directors of Sales and Marketing, Six Sigma, Revenue Management

and Human Resources all have hotel level managers reporting to them on a dotted line basis.

Figure 12: Starwood Hotels & Resort's Simplified Corporate Organization Chart

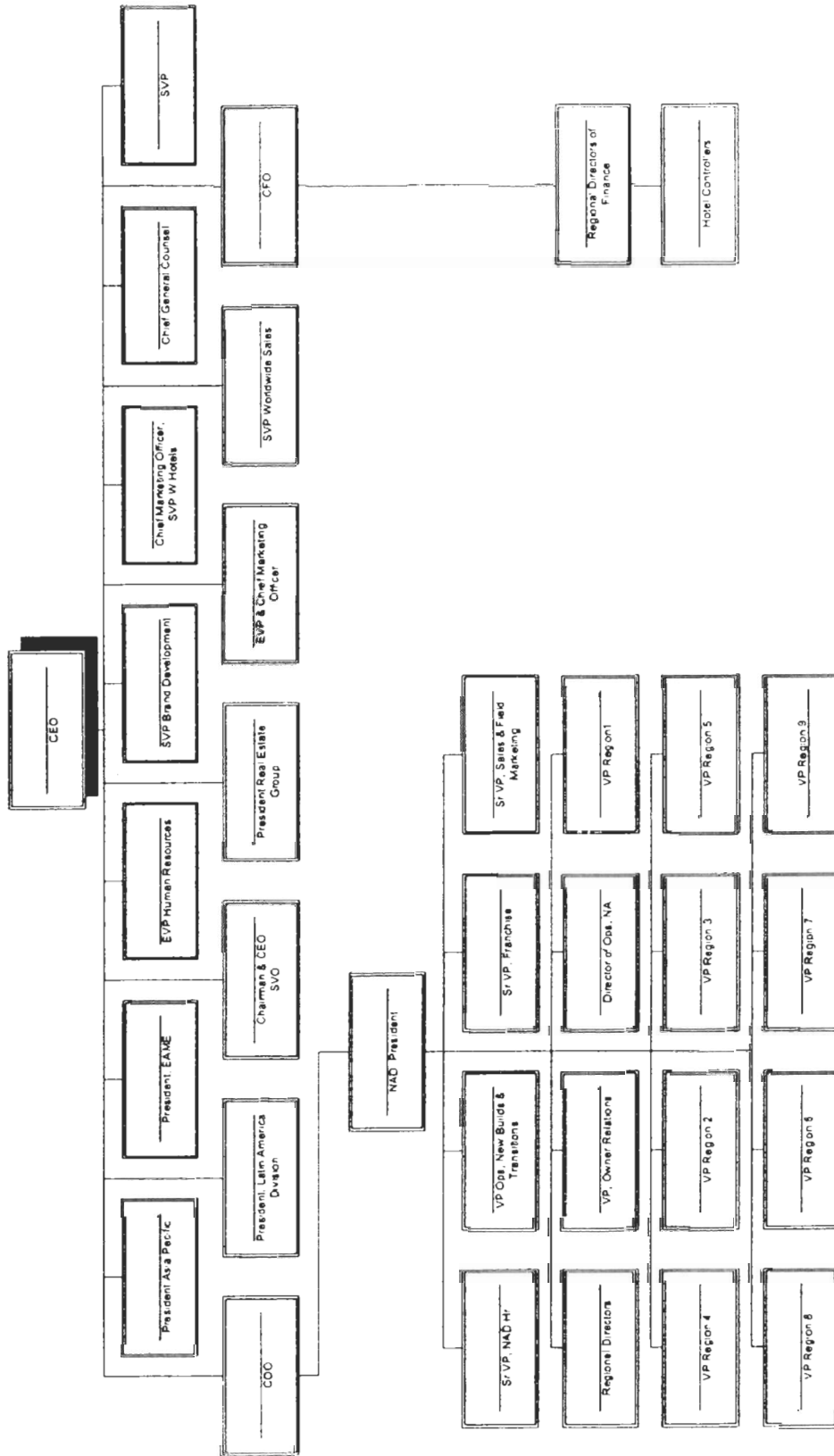
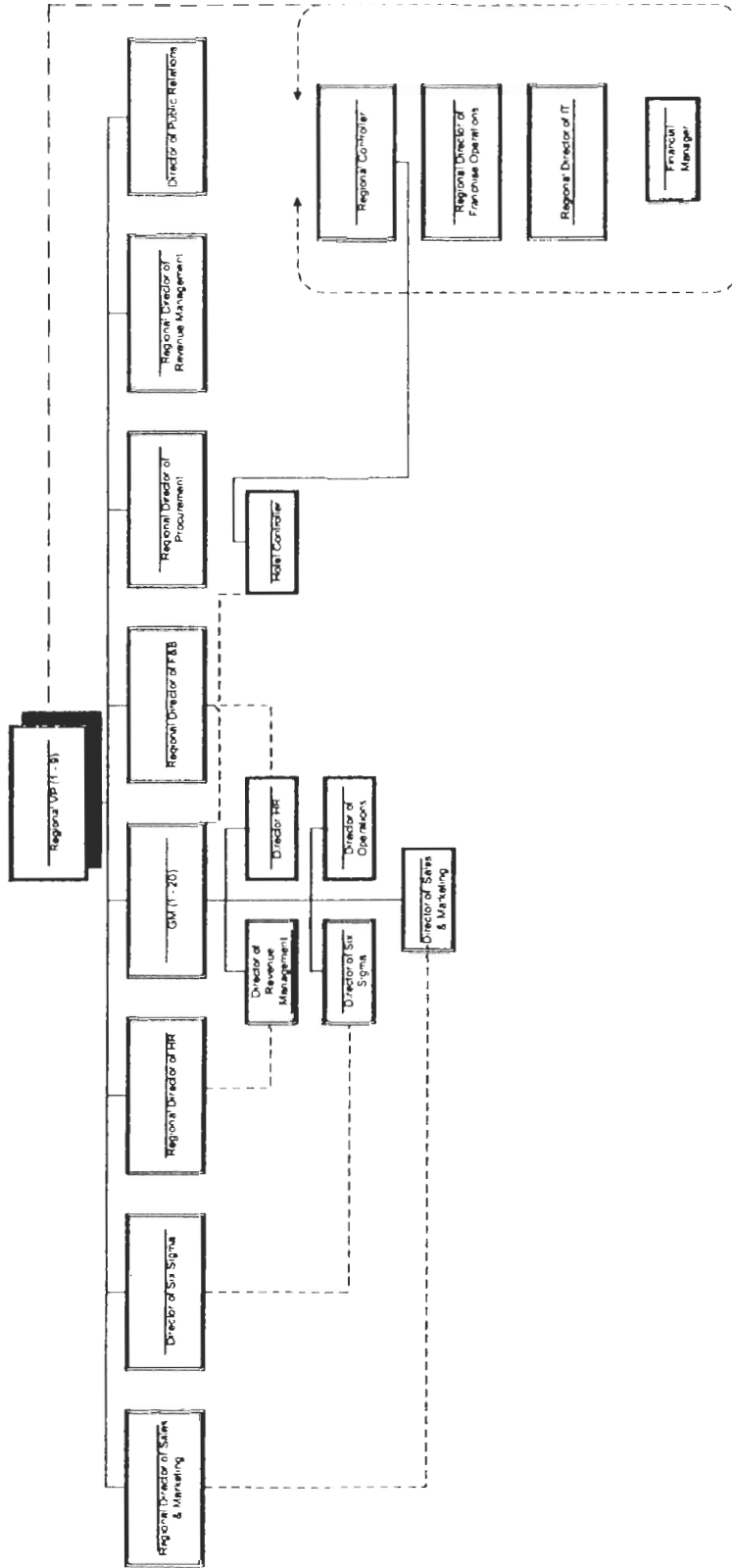


Figure 13: Starwood Hotels & Resort's Regional Corporate Office Simplified Organization Chart



3.11.2 The Westin Bayshore Resort & Marina

The Westin Bayshore Resort & Marina has implemented Starwood Hotels & Resort's recommended organizational matrix template for Westin Brand hotels. The Westin Bayshore Resort & Marina is led by a General Manager who has the following positions reporting to him: Director of Operations, Director of Sales and Marketing, Director of Human Resources, Director of Revenue Management, Director of Six Sigma and Director of Banquets. The Westin Bayshore Resort & Marina's Controller is the only position at The Westin Bayshore Resort & Marina that does not report directly to the General Manager. In order to prevent conflicts of interest involving financial decisions, the Controller reports directly to the Regional Controller.

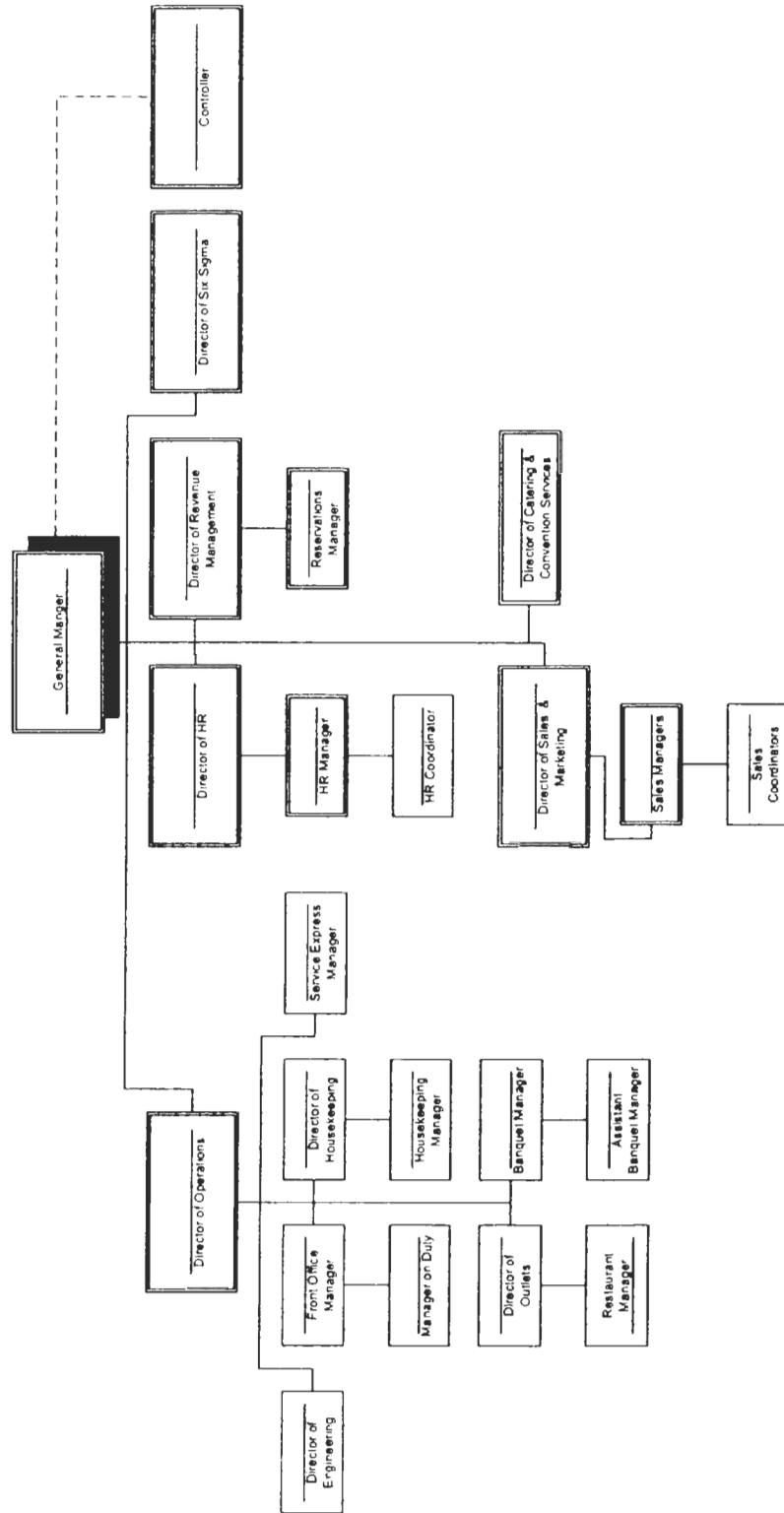
The Westin Bayshore Resort & Marina has an Executive Committee comprised of senior managers who are recognized as key strategic leaders. The members of The Westin Bayshore Resort & Marina's Executive Committee are Director of Operations, Director of Sales and Marketing, Director of Human Resources, Director of Revenue Management and Director of Six Sigma.

Starwood Hotels & Resort's matrix organization structure extends only to the Executive Committee management level of The Westin Bayshore Resort & Marina. The Westin Bayshore Resort & Marina's Executive Committee members all report on a dotted line basis to a Regional Director of their respective disciplines, with the exception of the General Manager and the Director of Operations.

Starwood Hotels & Resort's Westin Brand hotel level organization matrix divides the management structure into two main components operations and non-operational departments. All of the operations department report directly to the Director of Operations. All non-operational departments, such as Sales and Six Sigma, report directly to the General Manager.

The Director of Operations is a key management position at The Westin Bayshore Resort & Marina, second in power only to the General Manager. The following operations department managers report to the Director of Operations: Director of Engineering, Front Office Manager, Director of Housekeeping, Service Express Manager, Manager on Duty, Banquet Manager and Director of Outlets.

Figure 14: The Westin Bayshore Resort & Marina's Simplified Organizational Chart



3.11.3 Organizational Structure's Alignment with Strategy

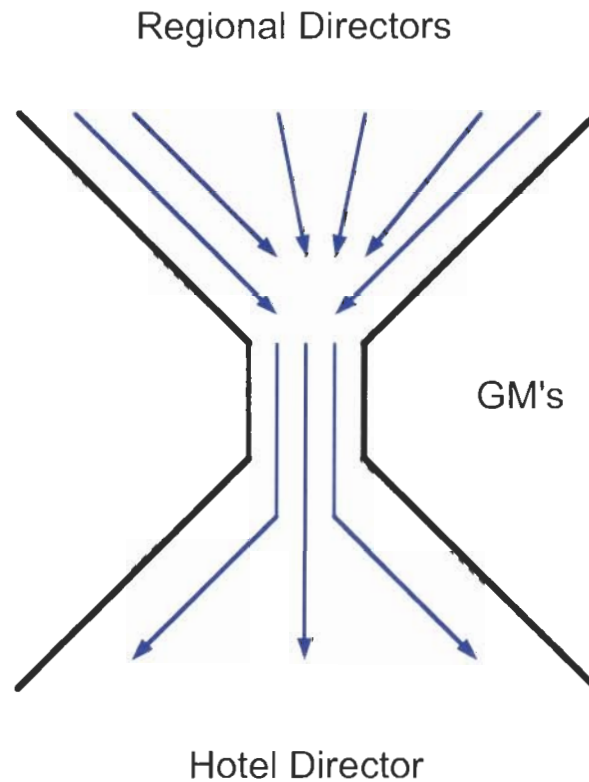
Starwood Hotels & Resort's organizational structure is not aligned with its generic strategy of providing differentiated and innovative product offerings to its customers. Starwood Hotels & Resort's matrix organizational structure is not aligned with its generic strategy because it uses causes bottlenecks in the organization that slow the implementation of innovative products.

The major bottleneck that Starwood Hotels & Resort's matrix organization structure creates occurs between the Regional Operations Teams and the hotel Executive Teams. Starwood Hotels & Resort's organizational matrix requires that all innovation implementation within the Operations Departments of hotel properties pass through the hotel's General Managers. The General Managers are a key control point between individual hotels and the Regional Corporate Offices. They control the allocation of resources at the hotel properties and therefore have effective veto power over any initiative that is implemented at their hotel properties. In addition, they set and approve the incentive goals of their hotels' directors and managers.

Similar to any other bottleneck, this bottleneck creates a capacity constraint on the pace and quantity of innovation product implementations that occur at Starwood Hotels & Resort's hotels. General Managers have a limited amount of time that they are capable of allocating to project implementations. This results in a finite restriction on the number of projects that Starwood Hotels & Resorts is capable of implementing at its hotel properties. This limitation will prevent Starwood Hotels & Resorts from implementing all of the projects that it needs to execute its differentiation strategy. Therefore, the

bottleneck that Starwood Hotels & Resort's matrix organizational structure creates does not support its differentiated product strategy.

Figure 15: The Organizational Bottleneck



3.12 Financial Analysis

Financial analyses have been performed on both The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts. The financial analyses of these two components are contained in the following two sections of this chapter.

3.12.1 Financial Analysis - The Westin Bayshore Resort & Marina

3.12.1.1 Balance Sheet

The Westin Bayshore Resort & Marina has experienced steady growth since it's re-opening in 2000. This growth is displayed by the constantly improving strength of The Westin Bayshore Resort & Marina's balance sheet. The following balance sheet analysis factors were examined: quick ratio, debt to equity ratio, return on invested capital, return on equity, current ratio and accounts receivable collection period. The balance sheet analysis is contained in the following paragraphs.

3.12.1.1.1 Quick Ratio

The Westin Bayshore Resort & Marina's quick ratio has improved from a factor of 0.04 in 2000, to 0.07 in 2005. The quick ratio indicates that the overall liquidity position of The Westin Bayshore Resort & Marina continues to improve.

Table 10: Quick Ratio Calculation

Quick Ratio	2000	2001	2002	2003	2004	2005
Cash - Inventory	(147,768)	(232,804)	(247,736)	(216,738)	(232,416)	(249,731)
Current Liabilities	3,994,864	4,615,182	5,346,088	4,474,557	4,403,913	3,761,852
	(0.04)	(0.05)	(0.05)	(0.05)	(0.05)	(0.07)

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3.12.1.1.2 Debt to Equity Ratio

The Westin Bayshore Resort & Marina's debt to equity ratio indicates a declining value of -5.71 in 2000 to -10 in 2005. The unusual negative equity ratio values occur as a result of The Westin Bayshore Resort & Marina's financing arrangements with its corporate parent company. The Westin Bayshore Resort & Marina's corporate parent company arranged for debt financing that resulted in a transfer of equity from The Westin

⁴⁴ The Westin Bayshore Resort & Marina, Multi Year Comparative Financial Statements, 2000 - 2005

Bayshore Resort & Marina's balance sheet to that of the corporate parent. As a result, there is a negative owners' equity value. In absolute terms, The Westin Bayshore Resort & Marina's debt to equity ratio has improved from a value of 5.71 in 2000 to 10.00 in 2005. This value represents a continued increase in owners' equity of \$8.5 million, combined with a reduction in the liabilities of \$15.5 million during the years 2000 to 2005.

Table 11: Debt to Equity Ratio Calculation

	2000	2001	2002	2003	2004	2005
Debt to Equity Ratio						
Total Liabilities	92,799,071	88,623,408	90,864,992	83,913,165	76,378,439	77,220,146
Total Owners Equity	(16,257,251)	(16,037,590)	(14,391,824)	(11,198,990)	(7,473,918)	(7,724,872)
	(5.71)	(5.53)	(6.31)	(7.49)	(10.22)	(10.00)

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3.12.1.1.3 Return on Invested Capital

The Westin Bayshore Resort & Marina's return on invested capital has increased from 14% in 2001 to 19% in 2005. This growth is providing The Westin Bayshore Resort & Marina's owners with growing returns on their capital investment in The Westin Bayshore Resort & Marina. The increasing value of return on invested capital over time is an indication of improving financial performance.

Table 12: Return on Invested Capital Calculation

	2001	2002	2003	2004	2005
ROIC					
EBITDA	9,213,198	10,182,026	11,920,988	11,998,491	12,720,462
Invested Capital BOP	67,789,768	70,989,576	68,173,235	64,500,608	65,733,422
	14%	14%	17%	19%	19%

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3.12.1.1.4 Invested Capital Turnover

⁴⁵ Ibid

⁴⁶ Ibid

The Westin Bayshore Resort & Marina's invested capital turnover ratio has increased from 62% in 2001 to 70% in 2005. The increasing value of invested capital turnover indicates that The Westin Bayshore Resort & Marina's capital investment is working hard and therefore generating more value for The Westin Bayshore Resort & Marina's owners. The increasing invested capital turnover indicates improving performance over time.

Table 13: Invested Capital Turnover Calculation

	2001	2002	2003	2004	2005
Invested Capital Turnover					
Sales	41,872,198	42,555,026	44,598,988	44,484,788	46,073,881
Invested Capital BOP	67,789,768	70,989,576	68,173,235	64,500,608	65,733,422
	62%	60%	65%	69%	70%

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3.12.1.1.5 Return on Equity

The Westin Bayshore Resort & Marina's return on equity has steadily improved during the 2001 to 2005 period. However, due to the negative equity value present on The Westin Bayshore Resort & Marina's balance sheet, the return on equity factor calculates as a negative value. Examination of the factors of the calculation reveals that net income has increased by \$4.1 million and book equity at beginning of period has increased by \$8.7 million between the years 2001 and 2005. Therefore, in real terms, the change from -1% in 2001 to -58% in 2005 represents a positive performance improvement.

⁴⁷ Ibid

Table 14: Return on Equity Calculation

	2001	2002	2003	2004	2005
Return on Equity					
Net Income Available	219,000	1,646,000	3,193,000	3,725,000	4,358,000
Book Equity BOP	(16,257,251)	(16,037,590)	(14,391,824)	(11,198,990)	(7,473,918)
	-1%	-10%	-22%	-33%	-58%

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3.12.1.1.6 Current Ratio

The current ratio has remained steady at the approximate value of 0.45 from 2003 to 2005. Although the current ration seems dangerously low, its value is a result of the corporate parent companies cash management policy and not a cause for concern. The Westin Bayshore Resort & Marina's corporate parent has a zero-cash policy in place at of all of its operating units. Under this arrangement, all of The Westin Bayshore Resort & Marina's cash is transferred to the corporate parent on a daily basis. As all of the payables remain on The Westin Bayshore Resort & Marina's balance sheet, the cash transfer has the effect of artificially reducing the current ratio value.

Table 15: Current Ratio

	2000	2001	2002	2003	2004	2005
Current Ratio						
Current Assets		2,712,893	1,805,590	2,391,224	2,069,275	2,000,406
Current Liabilities		3,994,864	4,615,182	5,346,088	4,474,557	4,403,913
		0.68	0.39	0.45	0.46	0.45

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3.12.1.1.7 Accounts Receivable Collection Period⁴⁸ Ibid⁴⁹ Ibid

The accounts receivable collection period of The Westin Bayshore Resort & Marina has averaged 15.6 days from 2001 to 2005. Although the current 2005 collection period of 19 days is at the high range of The Westin Bayshore Resort & Marina's performance, the overall collection period of less than 30 days is positive.

Table 16: Accounts Receivable Collecting Period Calculation

	2001	2002	2003	2004	2005
Accounts Receivable Collection Period					
Days	366.00	367.00	368.00	369.00	370.00
AR Turnover	/ 27.43	21.59	25.96	26.78	18.77
	13.34	17.00	14.17	13.78	19.71

50

3.12.1.2 Income Statement Analysis

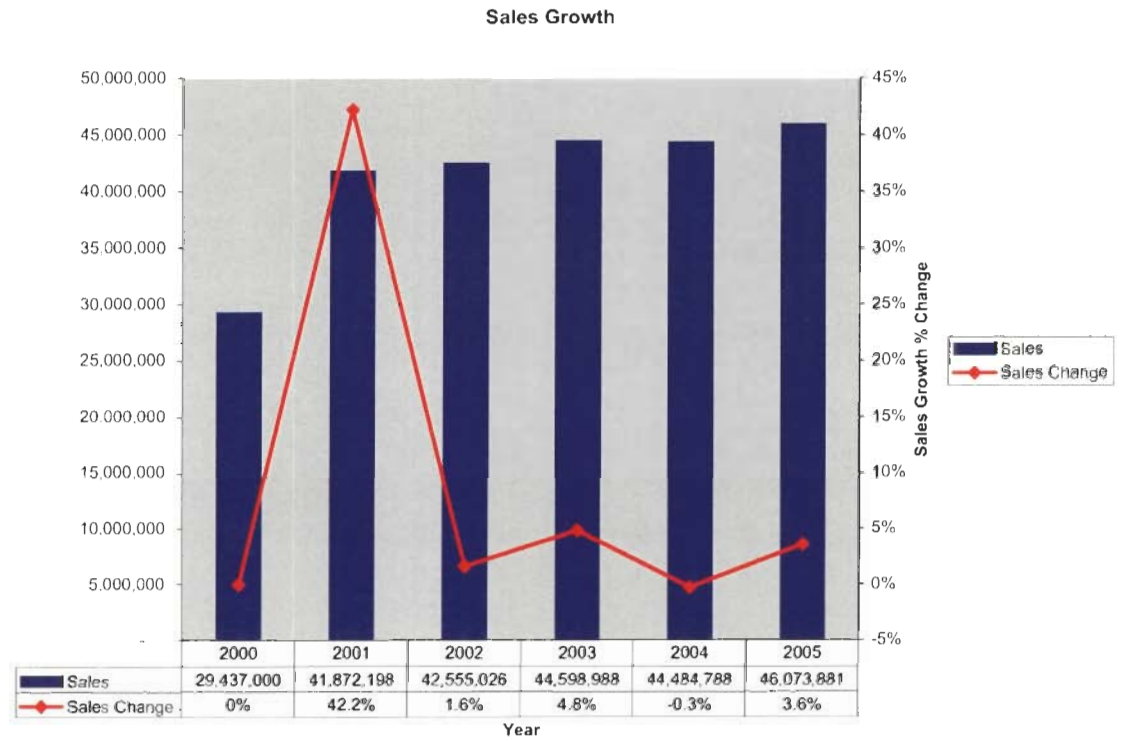
An analysis of The Westin Bayshore Resort & Marina's income statement reveals steadily increasing sales growth that has allowed The Westin Bayshore Resort & Marina to increase its profitability between 2000 and 2005. The following income statement financial analysis was performed to prove the existence of the profit and sales growth, sales volume, REVPAR, average daily rate, hotel occupancy, EBITDA, gross operating profit, EBITDA margin and degree of operating leverage.

3.12.1.2.1 Sales Growth

The Westin Bayshore Resort & Marina's gross sales grew from \$29.4 million to \$41.3 million, or an average of 10% per year between 2000 and 2005. The constant sales growth is a positive indicator of The Westin Bayshore Resort & Marina's financial performance.

⁵⁰ Ibid

Figure 16: Sales Growth Graph 2000 - 2005



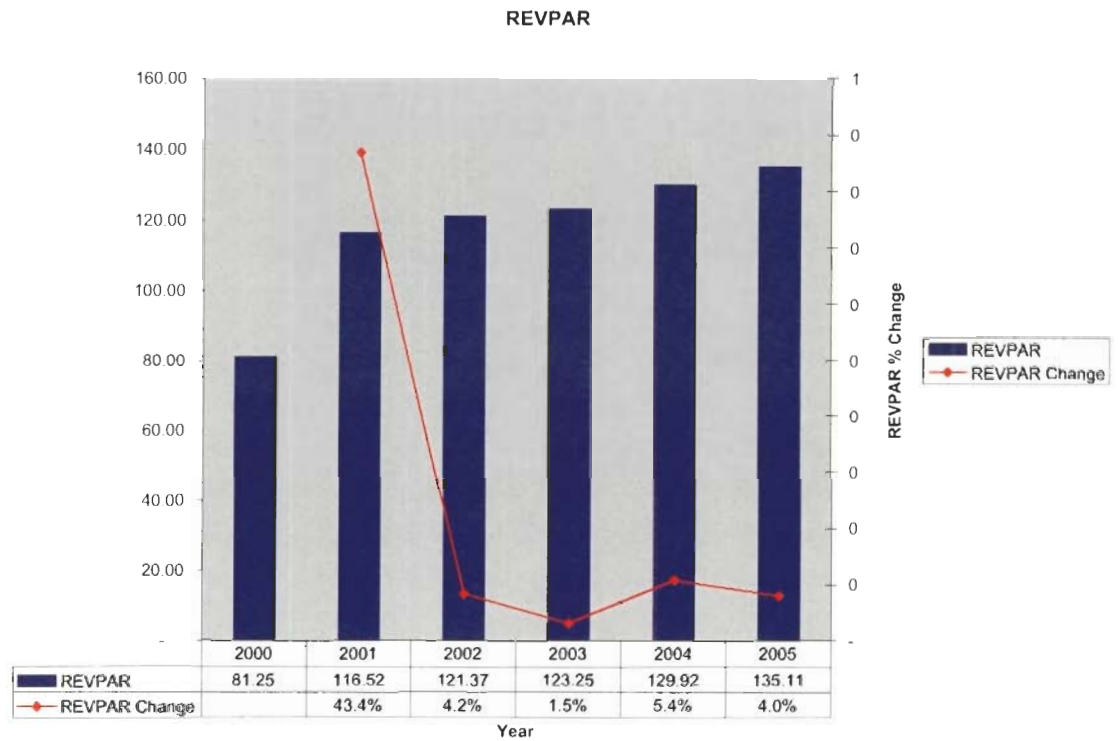
51

3.12.1.2.2 Revenue per Available Room Graph (REVPAR)

REVPAR has increased an average of 4% per year from 2000 to 2005. REVPAR growth is considered a positive sign of growth within the hotel industry.

⁵¹ Ibid

Figure 17: REVPAR 2000 - 2005



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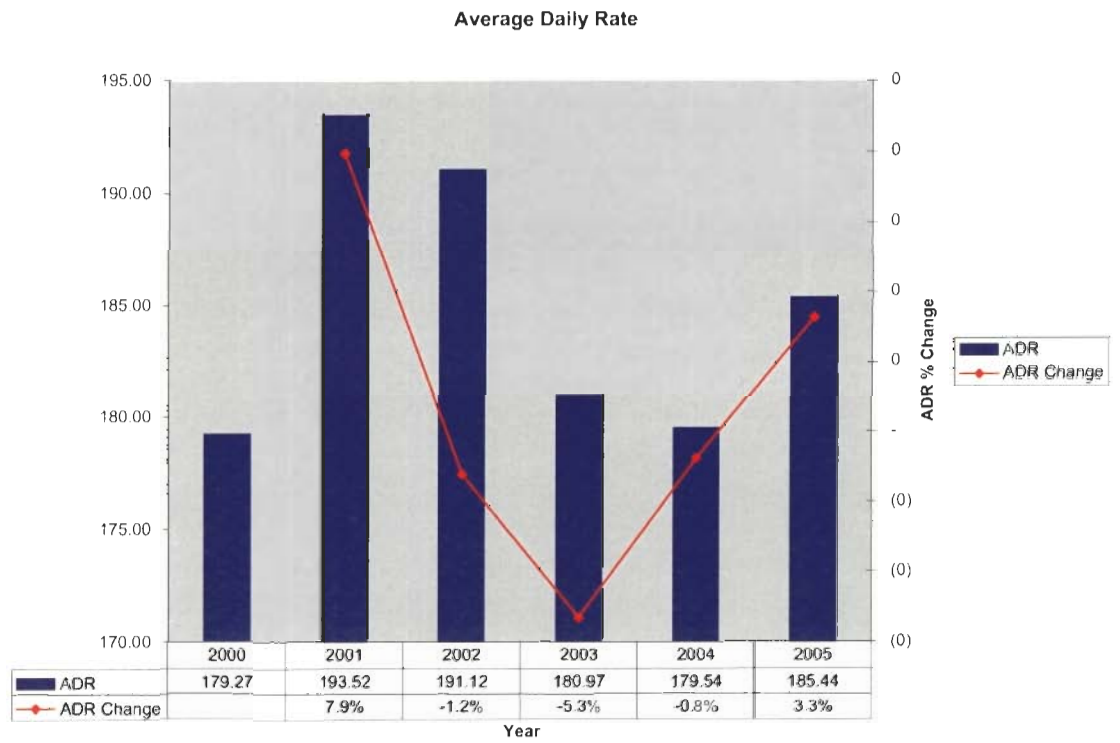
3.12.1.2.3 Average Daily Rate (ADR)

The Westin Bayshore Resort & Marina's ADR increased from \$81.25 to \$135.011 or an average of 1% from 2000 to 2005. The Westin Bayshore Resort & Marina's relatively low average daily rate is a result of a combination of poor economic conditions within the hotel industry during the years 2003 to 2005 that increased overall competition amongst hotels in the City of Vancouver. The increased competition resulted in downward pressure on hotel rates. Although The Westin Bayshore Resort & Marina's average rate declined between 2003 and 2004, The Westin Bayshore Resort & Marina was able to increase overall sales volumes by capturing additional guest room

⁵² Ibid

occupancy. The average rate is expected to grow during 2005. The overall evaluation of the average daily rate growth is considered neutral.

Figure 18: Average Daily Rate Graph 2000 - 2005



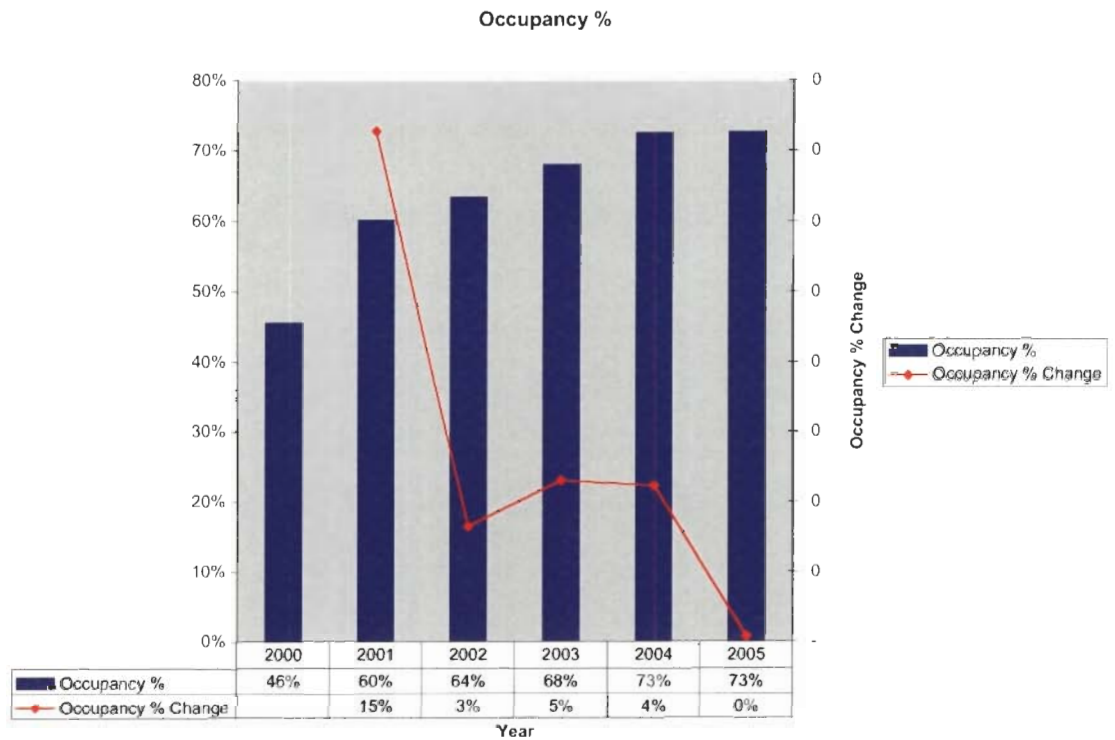
53

⁵³ Ibid

3.12.1.2.4 Resort Occupancy

The Westin Bayshore Resort & Marina's occupancy rate has grown from 63% in 2000 to 73% in 2005, an average of 5% per year. The Westin Bayshore Resort & Marina's occupancy growth is generally considered positive as it allows The Westin Bayshore Resort & Marina to create compression conditions that helps it to raise its average room rates.

Figure 19: Resort Occupancy Graph 2000 - 2005

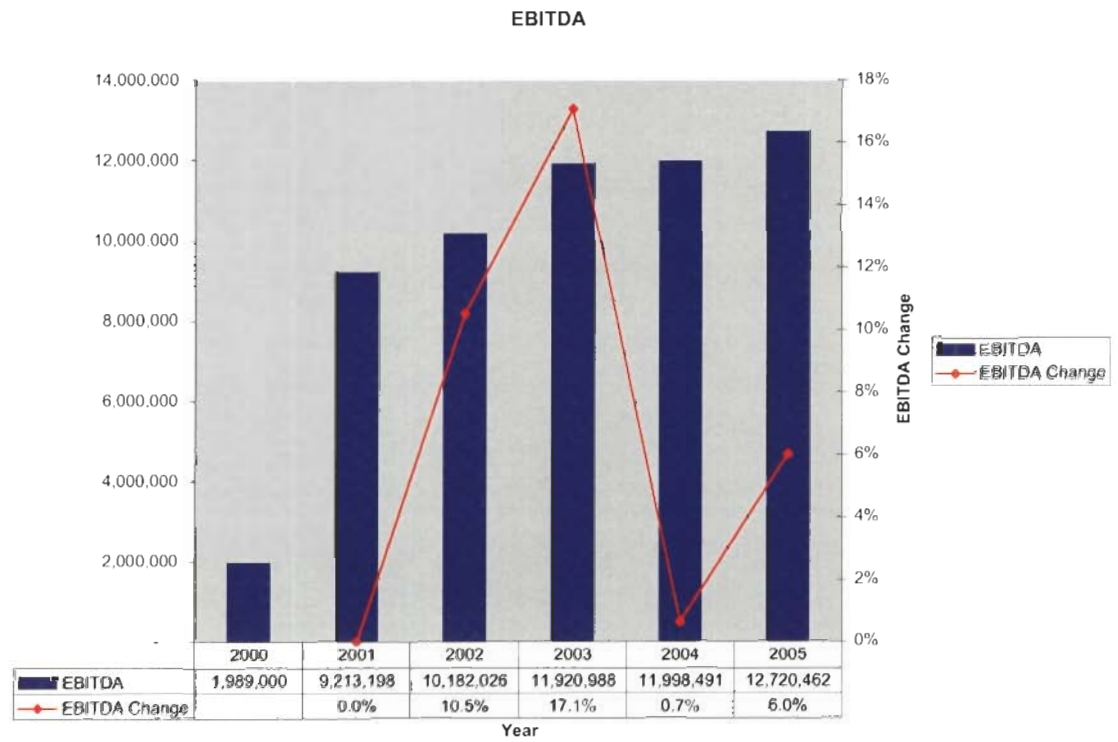


⁵⁴ Ibid

3.12.1.2.5 EBITDA Growth

The Westin Bayshore Resort & Marina’s EBITDA grew from \$1.9 million in 2000 to 12.7 million in 2005, an average of 5% growth per year. The Westin Bayshore Resort & Marina’s EBITDA growth is considered a positive performance indicator.

Figure 20: The Westin Bayshore Resort & Marina Occupancy Graph 2000 - 2005



⁵⁵ Ibid

3.12.1.2.6 EBITDA Margin Growth

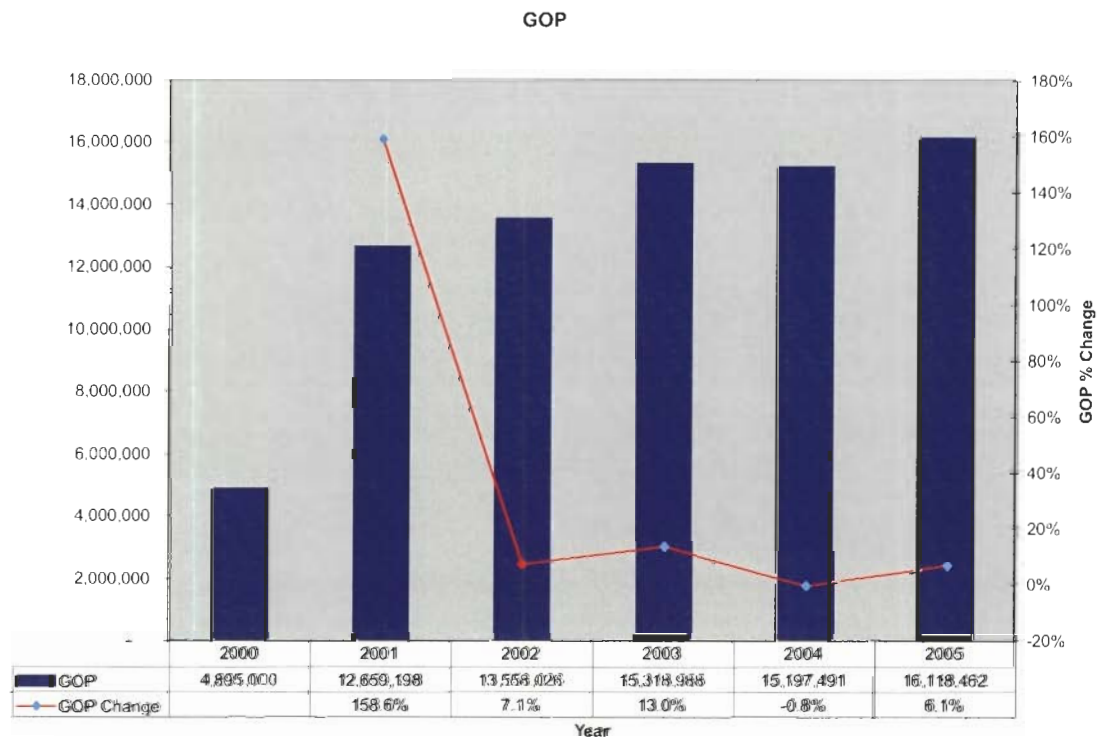
The Westin Bayshore Resort & Marina's EBITDA margin increased from 22% in 2000 to 28% in 2005. Increasing EBITDA margin values indicate that the EBITDA is growing as a percentage of total sales. EBITDA margin is considered a positive financial performance indicator.

EBITDA Margin						
EBITDA		9,213,198	10,182,026	11,920,988	11,998,491	12,720,462
Sales	/	<u>41,872,198</u>	<u>42,555,026</u>	<u>44,598,988</u>	<u>44,484,788</u>	<u>46,073,881</u>
		22%	24%	27%	27%	28%

3.12.1.2.7 Gross Operating Profit (GOP) Growth

The Westin Bayshore Resort & Marina’s GOP grew from \$4.8 million to \$16.1 million between 2000 and 2005, an average growth of 37%. GOP is considered a key performance indicator of managed hotels because the Hotel Managers are not responsible for the debt structure placed on a hotel. Therefore year after year GOP growth is considered an important financial performance indicator and contributes to increasing Starwood Hotels & Resort’s hotel management fees.

Figure 21: Gross Operating Profit Graph 2000 - 2005



⁵⁶ Ibid

3.12.1.2.8 Degree of Operating Leverage (DOL)

The Westin Bayshore Resort & Marina’s degree of operating leverage decreased from 8.6 to 1.7 between 2000 and 2005. The degree of operating leverage is defined as the sensitivity of EBITDA to changes in sales. The decreasing value of The Westin Bayshore Resort & Marina’s degree of operating leverage indicates that The Westin Bayshore Resort & Marina’s EBITDA is becoming less sensitive to changes in sales. This is considered a positive indicator of financial performance.

Table 17: Degree of Operating Leverage Calculation

	2001	2002	2003	2004	2005
Degree of Operating Leverage					
% Change in EBITDA	363%	11%	17%	1%	6%
% Change in Sales	42%	2%	5%	0%	4%
	8.6	6.4	3.6	-2.5	1.7

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3.12.1.3 Comparative Analysis of The Westin Bayshore Resort & Marina and its Competitive Set

The Westin Bayshore Resort & Marina has outperformed its competitors in REVPAR, ADR and Occupancy from 2003 to 2005. The financial analysis of these performance indicators is as follows.

3.12.1.3.1 Competitive Set REVPAR Analysis

The Westin Bayshore Resort & Marina has achieved a higher REVPAR than its competitive set in 2003 to 2005 inclusive, an average of \$16.22. The higher REVPAR performance of The Westin Bayshore Resort & Marina indicates The Westin Bayshore Resort & Marina is performing better than the majority of its competitors. REVPAR

⁵⁷ Ibid

performance that is higher than other competitors indicates that The Westin Bayshore Resort & Marina may be capturing more than its fair share of high rate guest room supply.

Table 18: REVPAR Comparison 2001 - 2005

	REVPAR					
	2001	2002	2003	2004	2005	Average
The Resort	116.52	121.37	119.57	132.18	127.44	
Competitive Set			108.88	108.18	113.48	
Variance			10.69	24.00	13.96	16.22

⁵⁸

3.12.1.3.2 Competitive Set ADR Analysis

Between 2003 and 2005, The Westin Bayshore Resort & Marina achieved higher average daily rates than its competitors. During this period, The Westin Bayshore Resort & Marina's average daily rate was an average of \$16.22 better than its competitive set. ADR that are higher than The Westin Bayshore Resort & Marina's competitive set indicate that The Westin Bayshore Resort & Marina is achieving more than its fair share of high rated hotel room night sales.

⁵⁸ Panell Ker Forster Consulting Inc., "The Westin Bayshore Resort & Marina Month End STAR Report", January 2004

Table 19: Average Daily Rate Comparison

	ADR					
	2001	2002	2003	2004	2005	Average
The Resort	193.52	191.12	189.16	182.21	176.81	
Competitive Set			172.31	169.21	168.44	
Variance			16.85	13.00	8.37	12.74

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3.12.1.3.3 Comparative Occupancy Statistics

During the years 2003 and 2005, The Westin Bayshore Resort & Marina's occupancy was an average of 4% higher than its competitive set. Occupancies that are higher than competitors are considered positive because they indicate The Westin Bayshore Resort & Marina is capturing more than its fair share of hotel room night supply

Table 20: Occupancy Comparison 2001 - 2005

	Occupancy					
	2001	2002	2003	2004	2005	Average
The Resort	60%	64%	63%	73%	72%	
Competitive Set			63%	64%	67%	
Variance			0%	9%	5%	4%

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3.12.1.4 Valuation of The Westin Bayshore Resort & Marina's Property Value

The standard hotel industry approach to revenue producing or investment real estate is to focus on an analysis of revenue and operating expenses. The purpose of this analysis is to estimate the quantity, quality and durability of the net operating income that is to be converted into an expression of market value.

⁵⁹ Ibid⁶⁰ Ibid

A typical hotel evaluation process involves the analysis of revenue and operating expenses in order to project the earnings capability of the entity based on an investment horizon. The typical investment horizon in a hotel investment is 10 or years or longer.

This evaluation will use a 10-year combined actual and projected income statement. Historical revenue and operating expenses for the 10-year period will be extracted and normalized to provide a static reference point for financial calculations. The terminal value of the property will be calculated as of December 31, 2014. Both the net present values of the cash flow and the terminal value will then be added together for the calculation of the financial appraisal of The Westin Bayshore Resort & Marina.

The following table includes the 10-year pro forma net cash flow calculation that will be used to perform the property valuation.

Table 21: Pro Forma Net Cash Flow Statement 2005 - 2009

	6/1 reforecast	Forecast			
	2005	2006	2007	2008	2009
Occupancy %	72.7%	73.5%	74.1%	74.5%	74.6%
ADR	\$ 185.44	\$ 197.00	\$ 206.85	\$ 214.09	\$ 221.58
REVPAR	\$ 135.11	\$ 144.99	\$ 153.48	\$ 159.71	\$ 165.52
Revenues					
Total Room Revenue	25,150,915	26,990,182	28,570,743	29,730,250	30,811,585
Food & Beverage	17,854,345	18,637,000	19,475,000	20,351,375	21,267,187
Telephone	895,551	697,680	697,680	697,680	697,680
Minor Operating Dept	1,424,025	1,438,000	1,450,000	1,462,000	1,473,696
Rent & Other Revenue	749,045	1,326,197	1,336,373	1,348,244	1,348,244
Total Revenues	46,073,881	49,089,059	51,529,796	53,589,549	55,598,392
Department Profit					
Rooms	18,439,823	19,999,783	21,313,820	22,327,376	23,293,871
Margin	73.3%	74.1%	74.6%	75.1%	75.6%
Food & Beverage	5,359,041	5,721,559	6,154,100	6,614,197	7,209,576
Margin	30.0%	30.7%	31.6%	32.5%	33.9%
Telephone	355,324	306,979	306,979	306,979	306,979
Margin	39.7%	44.0%	44.0%	44.0%	44.0%
Minor Operating Dept	712,531	647,100	652,500	657,900	663,163
Margin	50.0%	45.0%	45.0%	45.0%	45.0%
Rental & Other Revenue Margin	459,656	994,648	1,002,279	1,011,183	1,011,183
Margin	61.4%	75.0%	75.0%	75.0%	75.0%
Total Department Profit	25,326,375	27,670,069	29,429,678	30,917,635	32,484,772
Undistributed Dept					
Total Undistributed Dept	9,207,913	9,373,000	9,775,000	10,171,000	10,355,000
Gross Operating Expenses	29,955,419	30,791,990	31,875,118	32,842,914	33,468,620
Growth	2.3%	2.8%	3.5%	3.0%	1.9%
Gross Operating Profit	16,118,462	18,297,069	19,654,678	20,746,635	22,129,772
Growth	6.1%	13.5%	7.4%	5.6%	6.7%
Margin	35.0%	37.3%	38.1%	38.7%	39.8%
Flow Thru	n/a	n/a	n/a	n/a	n/a
Fixed Charges					
Insurance	-	-	-	-	-
Taxes	2,942,000	3,030,260	3,121,168	3,214,803	3,311,247
Leases	-	-	-	-	-
Rent	456,000	469,680	483,770	498,284	513,232
Owner's	-	-	-	-	-
EBITDA	12,720,462	14,797,129	16,049,740	17,033,548	18,305,293
Growth	6.0%	16.3%	8.5%	6.1%	7.5%
Margin	27.6%	30.1%	31.1%	31.8%	32.9%
FF&E Reserve %	4.0%	4.0%	4.0%	4.0%	4.0%
Less: FF&E Reserve	1,842,955	1,963,562	2,061,192	2,143,582	2,223,936
License Fees%	0.0%	0.0%	0.0%	0.0%	0.0%
Less: License fees	-	-	-	-	-
Fees %	3.0%	3.0%	3.0%	3.0%	3.0%
Less: Base Mgmt fees	1,382,216	1,472,672	1,545,894	1,607,686	1,667,952
Incntv Mgmt Fee %	2.34%	2.59%	2.72%	2.81%	2.97%
Less: Incentive Mgmt Fees	1,078,129	1,271,407	1,401,610	1,505,866	1,651,272
NOI	8,417,162	10,089,488	11,041,044	11,776,413	12,762,133
GOP Adjustment					
NET CASH FLOW	8,417,162	10,089,488	11,041,044	11,776,413	12,762,133
Growth	6.0%	19.9%	9.4%	6.7%	8.4%
Margin	18.3%	20.6%	21.4%	22.0%	23.0%
% of Peak Year	107.0%	128.3%	140.3%	149.7%	162.2%

Table 22: Pro Forma Net Cash Flow Statement 2010 - 2014

	Forecast				
	2010	2011	2012	2013	2014
Occupancy %	74.6%	74.6%	74.6%	74.6%	74.6%
ADR	\$ 227.12	\$ 232.80	\$ 238.62	\$ 244.59	\$ 250.70
REVPAR	\$ 169.66	\$ 173.90	\$ 178.25	\$ 182.71	\$ 187.27
Revenues					
Total Room Revenue	31,581,944	32,371,771	33,181,065	34,011,218	34,860,838
Food & Beverage	21,895,210	22,541,778	23,207,440	23,892,759	24,598,315
Telephone	697,680	697,680	697,680	697,680	697,680
Minor Operating Dept	1,485,486	1,497,369	1,509,348	1,521,423	1,533,595
Rent & Other Revenue	1,348,244	1,348,244	1,348,244	1,348,244	1,348,244
Total Revenues	57,008,564	58,456,842	59,943,777	61,471,324	63,038,672
Department Profit					
Rooms	23,876,218	24,473,123	25,084,951	25,712,075	26,354,877
Margin	75.6%	75.6%	75.6%	75.6%	75.6%
Food & Beverage	7,422,476	7,641,663	7,867,322	8,099,645	8,338,829
Margin	33.9%	33.9%	33.9%	33.9%	33.9%
Telephone	306,979	306,979	306,979	306,979	306,979
Margin	44.0%	44.0%	44.0%	44.0%	44.0%
Minor Operating Dept	668,469	673,816	679,207	684,640	690,118
Margin	45.0%	45.0%	45.0%	45.0%	45.0%
Rental & Other Revenue Margin	1,011,183	1,011,183	1,011,183	1,011,183	1,011,183
Margin	75.0%	75.0%	75.0%	75.0%	75.0%
Total Department Profit	33,285,325	34,106,764	34,949,642	35,814,522	36,701,986
Undistributed Dept					
Total Undistributed Dept	10,632,074	10,916,793	11,209,370	11,510,030	11,819,000
Gross Operating Expenses	34,355,313	35,266,871	36,203,505	37,166,832	38,155,686
Growth	2.6%	2.7%	2.7%	2.7%	2.7%
Gross Operating Profit	22,653,251	23,189,971	23,740,272	24,304,492	24,882,986
Growth	2.4%	2.4%	2.4%	2.4%	2.4%
Margin	39.7%	39.7%	39.6%	39.5%	39.5%
Flow Thru	n/a	n/a	n/a	n/a	n/a
Fixed Charges					
Insurance	-	-	-	-	-
Taxes	3,410,584	3,512,902	3,618,289	3,726,838	3,838,643
Leases	-	-	-	-	-
Rent	528,629	544,488	560,822	577,647	594,977
Owner's	-	-	-	-	-
EBITDA	18,714,038	19,132,581	19,561,161	20,000,007	20,449,366
Growth	2.2%	2.2%	2.2%	2.2%	2.2%
Margin	32.8%	32.7%	32.6%	32.5%	32.4%
FF&E Reserve %	4.0%	4.0%	4.0%	4.0%	4.0%
Less: FF&E Reserve	2,280,343	2,338,274	2,397,751	2,458,853	2,521,547
License Fees%	0.0%	0.0%	0.0%	0.0%	0.0%
Less: License fees	-	-	-	-	-
Fees %	3.0%	3.0%	3.0%	3.0%	3.0%
Less: Base Mgmt fees	1,710,257	1,753,705	1,798,313	1,844,140	1,891,160
Incmtv Mgmt Fee %	2.96%	2.95%	2.94%	2.93%	2.92%
Less: Incentive Mgmt Fees	1,687,454	1,724,477	1,762,347	1,801,110	1,840,729
NOI	13,035,985	13,316,125	13,602,750	13,895,905	14,195,930
GOP Adjustment					
NET CASH FLOW	13,035,985	13,316,125	13,602,750	13,895,905	14,195,930
Growth	2.1%	2.1%	2.2%	2.2%	2.2%
Margin	22.9%	22.8%	22.7%	22.6%	22.5%
% of Peak Year	165.7%	169.3%	172.9%	176.6%	180.5%

3.12.1.4.1 Discounted Cash Flow Calculation

The discounted cash flow method is based on the calculation of the present value of the free cash flows divided by the market capitalization rate. This value is in turn added to the terminal value of the asset at the end of the cash flow period. The result of this calculation is an expression of market value. The overall capitalization rate reflects all of the investor's relative and comparative feelings and aspirations about the property in light of the investment characteristics offered by the asset.

3.12.1.4.2 Market Capitalization Rate

The calculation of the market capitalization rate for The Westin Bayshore Resort & Marina was completed by taking an average of the market capitalization rate of all published Canadian Hotel Sales. A risk factor of 2% was deducted from this rate. A leverage factor of 2% was added to this rate, providing the final MCR rate. The MCR calculation for The Westin Bayshore Resort & Marina is as follows.

Table 23: Market Capitalization Rate – Canada

Hotel Name	Province	Cap Rate
Travelodge Courtenay	BC	12.0%
North Hill Inn	AB	15.2%
Best Western Green Gables	AB	11.9%
International Inn	AB	11.8%
BW village Park Inn	AB	12.8%
Days Inn - Lethbridge	AB	14.0%
Quality Inn Motel Village	AB	16.0%
Black Gold Inn	AB	12.8%
Comfort Inn and Suites	AB	15.4%
Sheraton Grande Hamilton	AB	12.0%
Quality Hotel	SK	5.0%
Comfort Inn and Suites	ON	12.0%
Howard Johnson Hotel	ON	12.0%
Toronto Colony Hotel	ON	6.1%
Ramada Inn and Convention Centre	ON	-1.6%
Holiday Inn Burlington	ON	14.5%
Holiday Inn Cambridge	ON	11.5%
Holiday Inn Kitchener	ON	11.3%
Holiday Inn Peterborough	ON	11.1%
Holiday Inn Sarnia	ON	12.4%
Holiday Inn Select	QC	12.0%
Wyndham Hotel	QC	7.8%
Average		11.3%

HVS International § Canada
 2120 Queen St. East, Suite 202
 Toronto, ON M42 1E2
 (416) 686-2260, ext 21
 (416) 686-2264 FAX
 slai@hvsinternational.com
<http://www.hvsinternational.com/>

Average Canadian MCR	11.3%
Sub: Risk Factor	2.0%
Add: Leverage Factor	<u>2.0%</u>
Market Capitalization Rate	<u>11.3%</u>

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The discounted cash flow model was created based on the following assumptions:

The inflation rate is 1.64% per annum; the current discount rate is 6.7%; and, the market capitalization rate is equal to 11.27%, as calculated in the previous section.

⁶¹ HVS International, “2003 Canadian Hotel Sales”, <http://www.hvsinternational.com/Publications/>

3.12.1.4.3 Net Present Value of Cash Flow

The net present value of the 2005 – 2014 cash flows will be calculated using the market capitalization rate of 11.27% discussed previously. The net present value calculation is as follows:

PV @ 11.27% of CFs 2005 - 2014	\$68,325,236
--------------------------------	--------------

3.12.1.4.4 Terminal Value Estimate

The terminal value of The Westin Bayshore Resort & Marina in the year 2014 will be calculated using a combination of the direct sale method and a perpetual growth calculation. The calculations for these terminal values are as follows.

A recent sale of The Westin Bayshore Resort & Marina determined that the current stand-alone sale price for the property was approximately \$145,000,000.

Based on the perpetual growth formula, the sale price of the property would be as follows:

Perpetual growth at 1.64 % [FCF(2014)/MCR - g]	\$147,407,757
--	---------------

3.12.1.4.5 Best Guess Method

After considering each of the terminal value calculations, an average of the direct sale and perpetual growth calculations will be used to calculate the terminal value. Using this method the terminal value calculations are as follows:

Terminal value estimates:

Direct Sale	\$146,000,000
Perpetual growth at 1.64 % [FCF(2014)/MCR - g]	\$147,407,757
Best-guess terminal value	\$146,703,879
PV of terminal value	\$95,703,814

3.12.1.4.6 Estimated Value of the Firm

Adding the net present value of the cash flows for 2005 – 2014 to the terminal value of The Westin Bayshore Resort & Marina at 2014 will provide a calculation of the estimated value of the firm. Therefore the estimated value of the firm is as follows:

Estimated Value of Firm	
PV @ 11.27% of CFs 2005 - 2014	\$68,325,236
PV of terminal value	\$95,703,814
	<u>\$164,029,050</u>

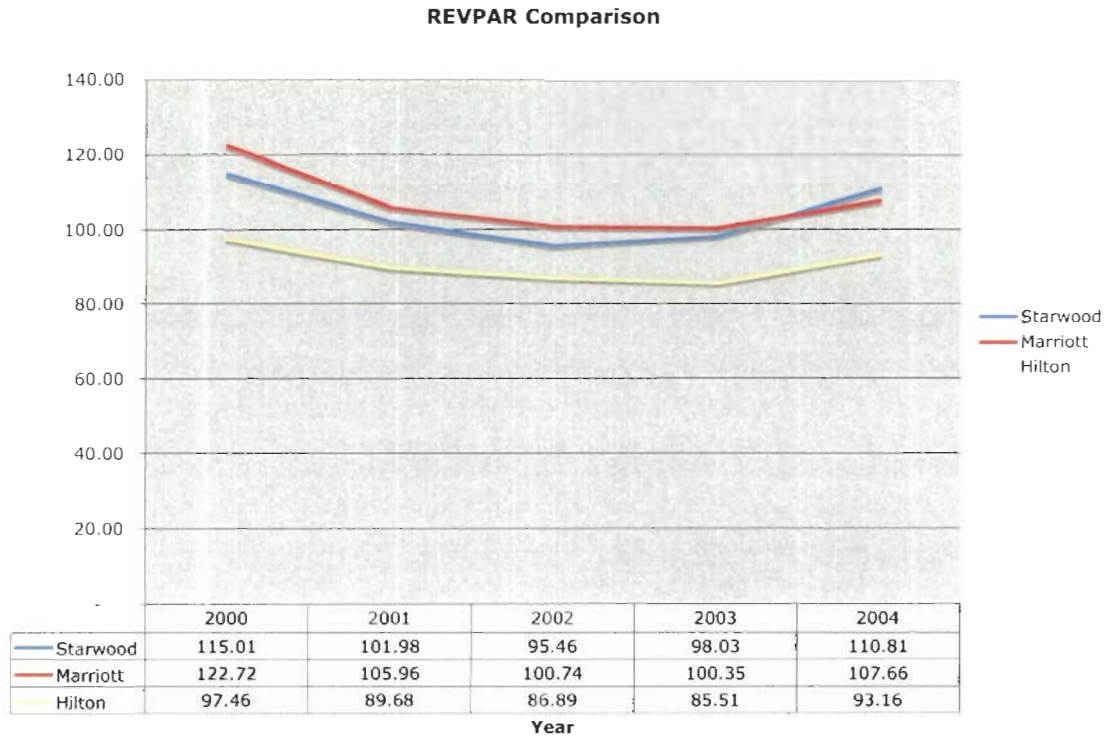
3.12.2 Financial Analysis - Starwood Hotels & Resorts

3.12.2.1 REVPAR Analysis

Starwood Hotels & Resorts has experienced declining REVPAR performance between the years of 2000 to 2003. During 2004 REVPAR began to increase again, but not enough to offset the REVPAR decline of the previous three years. From 2000 to 2005 the average REVPAR change was -0.5%.⁶²

⁶² Statistics compiled from the following sources: Starwood Hotels & Resorts, Annual Report, March 2000 – 2004; http://www.starwoodhotels.com/corporate/investor_relations.html , Hilton Corporation Annual Reports, 2000 – 2004, <http://phx.corporate-ir.net/phoenix.zhtml?c=88577&p=irol-sec> ; Host Marriot Corporation, Annual Reports, 2000 – 2004, www.hostmarriott.com

Figure 22: Starwood Hotels & Resorts Major Competitor REVPAR Comparison



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Table 24: Starwood Hotels & Resorts Major Competitor REVPAR Comparison

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REVPAR Change					
Owned, Leased & Consolidated Joint Venture Hotels					
Worldwide					
	2001	2002	2003	2004	Average
Starwood	-11.3%	-6.4%	2.7%	13.0%	-0.5%
Marriott	-13.7%	-4.9%	-0.4%	7.3%	-2.9%
Hilton	-8.0%	-3.1%	-1.6%	8.9%	-0.9%

⁶³ Ibid

⁶⁴ Ibid

Starwood Hotels & Resort's REVPAR performance compared to other similar hotel companies is considered mediocre. Starwood Hotels & Resorts exceeded Hilton's REVPAR performance by an average of \$17.56 between 2000 and 2004. However, Starwood Hotels & Resort's REVPAR performance was an average of \$4.82 less than Marriott's. Therefore, relative to Hilton and Marriott, Starwood Hotels & Resorts had mediocre REVPAR performance from 2000 to 2004.

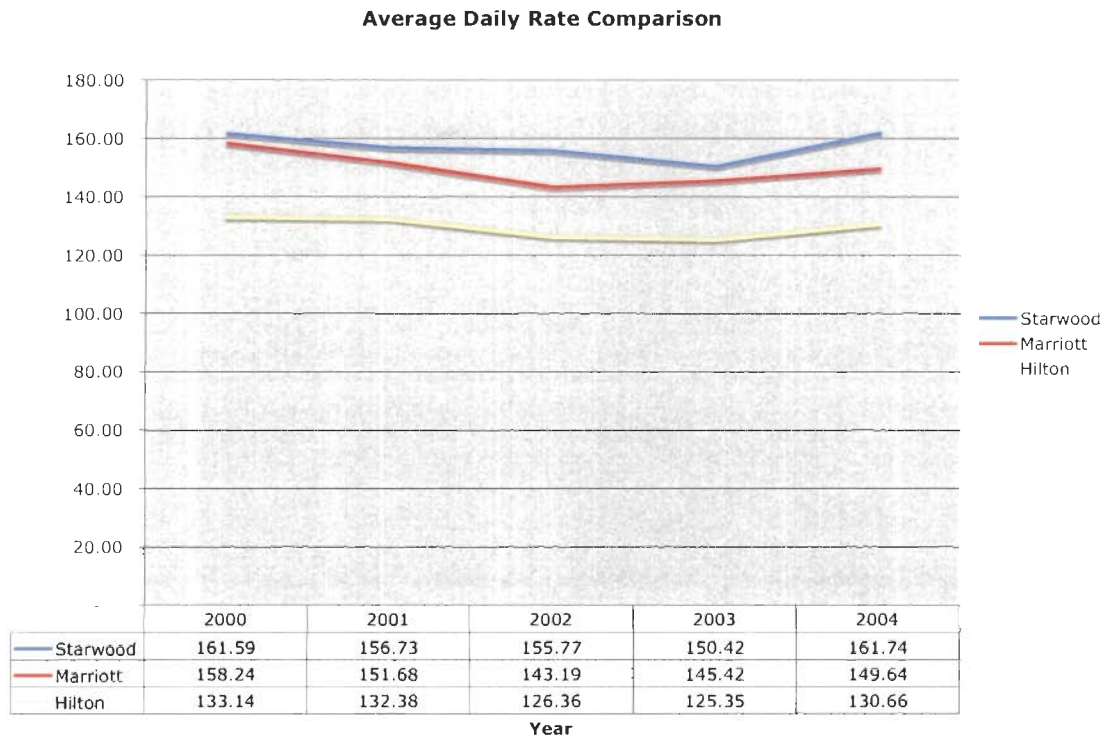
Table 25: Starwood Hotels & Resorts Major Competitor REVPAR Variance

	REVPAR Variance				
	2001 - 2000	2002 - 2001	2003 - 2002	2004 - 2003	Average
Starwood - Marriott	(7.71)	(3.98)	(5.28)	(2.32)	(4.82)
Starwood - Hilton	25.26	16.28	13.85	14.84	17.56

3.12.2.2 Average Daily Rate (ADR) Analysis

Starwood Hotels & Resort’s ADR declined from \$161.59 to 150.42 during the years 2000 to 2004. Starwood Hotels & Resort’s ADR rebounded to \$161.74 during 2005. From 2000 to 2004 Starwood Hotels & Resort’s annual ADR growth averaged 0.1% per year. Starwood Hotels & Resorts experienced declining ADR from 2000 to 2003 due to poor economic conditions that arose from the depressed United States economy and repercussions from the 9/11 World Trade Centre disaster.

Figure 23: Starwood Hotels & Resorts Major Competitor Average Daily Rate Comparison



⁶⁵ Ibid

Table 26: Starwood Hotels & Resort's Major Competitor Average Daily Rate Change Table

ADR Change Owned, Leased & Consolidated Joint Venture Hotels Worldwide					
	2001	2002	2003	2004	Average
Starwood	-3.0%	-0.6%	-3.4%	7.5%	0.1%
Marriott	-4.1%	-5.6%	1.6%	2.9%	-1.3%
Hilton	-0.6%	-4.5%	-0.8%	4.2%	-0.4%

⁶⁶

Starwood Hotels & Resort's ADR performance is considered superior to that of Hilton and Marriot. From 2001 – 2004 Starwood Hotels & Resort's average annual ADR performance was \$129.31 higher than Hilton's and \$20.33 higher than Marriott's. A higher ADR indicates that Starwood Hotels & Resorts was able to gain more than its fair share of high rated hotel guest room demand.

Table 27: Starwood Hotels & Resort's Average Daily Rate Variance from its Major Competitors

⁶⁷

ADR Variance					
	2001	2002	2003	2004	Average
Starwood - Marriott	25.10	19.30	16.83	20.07	20.33
Starwood - Hilton	133.14	132.38	126.36	125.35	129.31

3.12.2.3 Management Company Occupancy Analysis

Starwood Hotels & Resorts experienced declining hotel occupancy rates from 2000 to 2003 and saw an increase in 2004. Starwood Hotels & Resort's occupancy rates declined from 71.2% to 64.7% from 2000 to 2003, and to 68.5% in 2004. Again, the

⁶⁶ Ibid

⁶⁷ Ibid

decline of Starwood Hotels & Resort’s occupancy rates were the result of the depressed economic conditions in the United States combined with the effects of the 9/11 World Trade Centre tragedy on the hotel industry.

Figure 24: Starwood Hotels & Resort’s Major Competitor Occupancy Percentage Comparison

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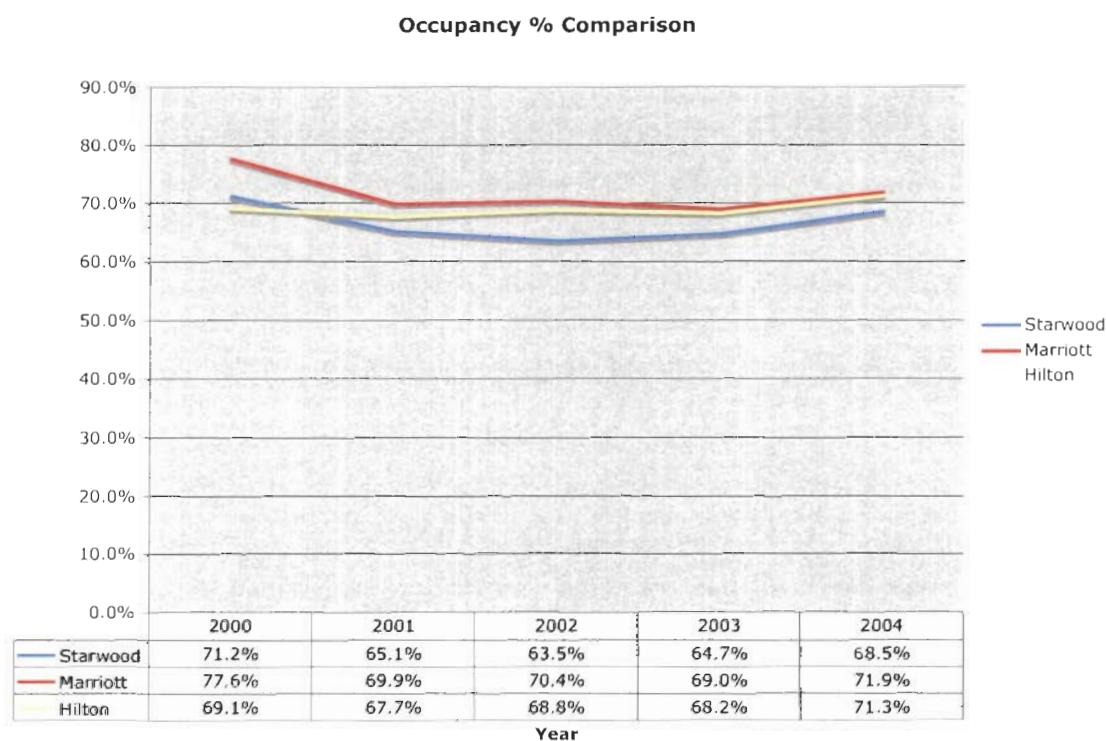


Table 28: Starwood Hotels & Resort’s Major Competitor Occupancy Change Variance

Occupancy Change Owned, Leased & Consolidated Joint Venture Hotels Worldwide					
	2001	2002	2003	2004	Average
Starwood	-8.6%	-2.5%	1.9%	5.9%	-0.8%
Marriott	-9.9%	0.7%	-2.0%	4.2%	-1.7%
Hilton	-2.0%	1.6%	-0.9%	4.5%	0.8%

⁶⁸ Ibid

Starwood Hotels & Resort's occupancy performance compared to Marriott and Hilton is considered mediocre. Starwood Hotels & Resorts exceeded Hilton's occupancy by 3%. However Marriott achieved 6% higher occupancy than Starwood Hotels & Resorts did. Therefore compared to Marriott and Hilton, Starwood Hotels & Resort's occupancy is to be considered mediocre.

Table 29: Starwood Hotels & Resorts and its Major Competitor Occupancy Variance Table

Occupancy Variance					
	2001	2002	2003	2004	Average
Starwood - Marriott	-6%	-5%	-7%	-4%	-6%
Starwood - Hilton	9%	2%	2%	1%	3%

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⁶⁹ Ibid

⁷⁰ Ibid

4 ISSUES

The issues that face Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina belong to one of two different types; those issues that affect both The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts, and those that affect only The Westin Bayshore Resort & Marina. These issues will be discussed in this chapter.

4.1 Issues Affecting Both The Westin Bayshore Resort & Marina & Starwood Hotels & Resorts

There are four major issues that affect both Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina. First, the contract between the two firms does not provide enough capital funding for Starwood Hotels & Resorts to implement its differentiated strategy. Second, the organizational structure used by the two firms does not support Starwood Hotels & Resort's innovation strategy. Third, the mini-conglomerate structure of Starwood Hotels & Resort's hotel operations does not allow either firm to maximize profit potential. Fourth, the culture clash between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's associates prevents The Westin Bayshore Resort & Marina from successfully implementing Starwood Hotels & Resort's differentiated product strategy. Detailed explanations of these issues are provided in the following sections.

4.1.1 Managed Hotel Contract Structure

The hotel management contract used by Starwood Hotels & Resorts is not structured to provide Starwood Hotels & Resorts with enough capital investment to sustain its differentiated product strategy. Starwood Hotels & Resort's strategy of providing high quality, differentiated products to its customers is more costly than using a low cost, adequate quality product strategy. These higher costs require Starwood Hotels & Resort's hotel owners to commit to higher levels of ongoing capital investments in their hotel properties.

There are several reasons to explain the higher costs that are associated with Starwood Hotels & Resort's differentiated strategy. There are increased investment costs associated with several initiatives under this strategy; research and product development, product implementations, product failure and the price premium that is charged on highly desirable products all require additional investment. These increased costs require Starwood Hotels & Resorts to secure higher capital funding commitments from its hotel owners.

Furthermore, under its current hotel management contract configuration, Starwood Hotels & Resorts requires hotel owners to provide the same amount of capital funding as hotels with low cost, adequate quality strategies, approximately 3% - 4% of gross operating profit. These capital investment levels are intended to provide enough funding to maintain hotel assets with the normal wear and tear levels associated with the strategies of cost-based hotel companies. When Starwood Hotels & Resorts implemented its new differentiated strategy, it did not increase the 3% - 4% capital investment requirements in its management contracts, despite the increased costs associated with the

strategy. It is unrealistic to expect that Starwood Hotels & Resorts can successfully implement its differentiated strategy using the capital funding charges associated with its previous product strategy.

One of the problems caused by Starwood Hotels & Resort's inability to collect sufficient capital funding from its hotel owners is that it is unable to rapidly implement new product innovations. This problem stems from the fact that hotel owners are only obligated to provide Starwood Hotels & Resorts with the capital funding listed in their management contracts. Under its new strategy, Starwood Hotels & Resorts frequently requires hotel owners to purchase products whose total costs are in excess of their contracted capital investment obligation. This forces owners to choose which capital projects they will approve. When pressed to decide between building maintenance and new product rollouts, hotel owners place higher priority on expenditures for building maintenance and asset-improvement expenses. This leaves Starwood Hotels & Resorts chronically short of the necessary capital funding to implement its projects. To compensate, Starwood Hotels & Resorts allows hotel owners longer timelines to assemble the necessary capital funding to purchase the new products, sacrificing its ability to rapidly rollout differentiated products to its hotels.

Starwood Hotels & Resort's Heavenly Bed® rollout illustrates Starwood Hotels & Resort's inability to rapidly deploy new products. Starwood Hotels & Resorts identified the Heavenly Bed® program as the principal method of differentiating its hotel product in 1999. The company ordered all of its owned and managed hotels to include the purchase and installation of the Heavenly Bed in their 1999 and 2000 capital expenses. Starwood Hotels & Resorts planned to have the Heavenly Bed® installed in

all of its Westin hotels by the end of 2000 in order to coincide with its planned national marketing program. However, Starwood Hotels & Resorts had still not successfully installed the Heavenly Beds in all of its Westin hotels by 2005. Many hotel owners who required all of their capital investment funds for regular building maintenance and improvements refused to purchase the beds. Starwood Hotels & Resorts was powerless to force hotel owners to purchase the beds because they were meeting their contracted capital investment obligations. Hotel owners were simply not choosing to spend their capital funds on the Heavenly Bed® program.

Starwood Hotels & Resort's decision to include the same capital investment rates its management contracts prevents it from successfully implementing its differentiated strategy.

4.1.2 Organizational Structures of Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina

The matrix organizational structures of Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina's do not provide optimal support for the company's differentiated strategy. Starwood Hotels & Resort's matrix organizational structure causes two principal problems. The first problem is that the structure contains a bottleneck that prevents Starwood Hotels & Resorts from successfully deploying all of its product innovations. The second problem that Starwood Hotels & Resort's organizational structure causes is that it does not foster a culture that supports rapid change. The following paragraphs present these arguments.

Starwood Hotels & Resort's matrix structure causes a physical capacity constraint on the quantity of new product innovations that its hotel properties are capable of

implementing within Starwood Hotels & Resort's hierarchical organizational structure.

This bottleneck occurs at the junction point between Starwood Hotels & Resort's regional operation teams, and its owned and managed hotel properties. From an employers' perspective, this junction point represents the position of Starwood Hotels & Resort's General Managers.

The General Manager position creates a bottleneck because of the strong control they exert over their individual hotel operations. General Managers are considered the ultimate authority on changes or products that are implemented in their hotels. They control all of the spending at their hotels. They also approve all incentive targets for managers at their properties, including their Executive Committee managers who report dotted line to Starwood Hotels & Resort's regional office. This dotted line reporting structure was discussed in Chapter 3, in The Westin Bayshore Resort & Marina's organization discussion. Adding to this power is the fact that hotel General Managers are notorious for jealously guarding their decision-making ability within their own hotels. They are also renowned for their charisma, and the personal stamp that they place upon their hotels. These factors make General Managers the ultimate decision makers at Starwood Hotels & Resort's hotels.

In order for Starwood Hotels & Resorts to successfully implement changes in its hotel properties, it must have the support of their hotel General Managers. They are required to secure funding, personal resources and most importantly provide sponsorship to ensure that new products are implemented at their hotels. Projects that do not have the support of the General Manager are usually doomed to fail. Typically these projects fail either because the General Managers are unwilling to lobby their hotel owners for the

funding required to execute the project, or they do not force their subordinate managers to back the project.

Although Starwood Hotels & Resort's matrix structure is intended to dilute the power of the General Managers, this has not happened. General Managers have maintained extremely strong control over their Executive Committee subordinates in spite of the dotted line reporting structure to the regional corporate level, which was designed to lessen the General Manager's power. This control is facilitated by political landscape in hotel properties. Although the Executive Committee managers report dotted line to Starwood Hotels & Resort's Regional Operation Managers, they remain extremely loyal to the General Managers. This loyalty occurs because the General Managers are responsible for determining and approving Executive Committee incentive goals and rewards, which in turn dictates that Executive Committee members to support their General Managers. This support comes at the expense of the Executive Committee Manager's loyalty to their dotted line superiors, the Regional Operations Team.

The geographic disbursement of the executive members across many satellite locations increases the power of hotel General Managers. Although Executive Committee members report in a dotted line fashion to Regional Managers, they work on-site at the hotel locations with the General Managers. Their remote proximity to their Regional Managers limits personal interactions to periodic meetings and phone calls. In contrast, they work closely with their General Managers on a daily basis. The axiom, "out of sight, out of mind" holds true in this case. Hotel General Managers exercise strong daily influence on their Executive Committee Managers at the expense of the

Regional dotted line Managers whose infrequent contact limits their influence on a hotel's Executive Committee Managers.

As with any junction point there is limited physical capacity with respect to how much volume it can accommodate. For the General Managers, these capacity constraints force them to contemplate how much time they are willing to devote to new product implementations, on top of their regular duties. What ends up occurring is that when General Managers are faced with more projects than they are capable of implementing, they pick and choose which projects they will complete. They make their choices rationally, choosing the projects that provide their hotels with greatest benefit using the least resources. The result of this situation is that the bottleneck problem prevents Starwood Hotels & Resorts from implementing all of its desired product implementations at its hotels.

One of the unintended effects of the General Manager bottleneck issue is the systematic bias that this bottleneck creates in favour of Rooms Division projects. Due to the higher profit margins associated with the Rooms Division, projects connected to this Division generally provide hotels with larger financial returns. When faced with a limited capacity to implement projects at their hotels, as well as being forced to choose between implementing a Rooms or Food Division project, General Managers logically choose the Rooms Division project.

The second problem associated with Starwood Hotels & Resort's matrix organizational structure is that it does not create a culture that supports rapid innovation. Starwood Hotels & Resort's large size naturally lends itself toward the maintenance of a highly regulated, rule based structure. Superimposing a highly structured, matrix

organization onto Starwood Hotels & Resorts reinforces the requirement within the company for rules and operating procedures to control it. Any organization that requires the ability to rapidly implement new product innovations optimally requires a structure that is flexible and adaptable. The large size and multiple levels of Starwood Hotels & Resort's organizational structure work against these initiatives. Worse yet, the matrix structure actually causes friction within the organization when it encounters change initiatives. Friction arises in the form of disagreements over why product innovations cannot be implemented fast enough, or why the organization is unable to consistently roll out the products through its entire organization.

4.1.3 Organizational Structure Produces Mediocre Operational Results

The mini-conglomerate structure of Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina causes operational inefficiencies that prevent the company from operating all of its divisions at maximum efficiency. The existence of these inefficiencies may allow new competitors to erode Starwood Hotels & Resort's market share. The following paragraphs will explain this argument.

Starwood Hotels & Resorts has forced two non-comparable business units, The Rooms and Food and Beverage Divisions, to operate under a single organizational structure at each of its hotels. The Rooms Division is Starwood Hotels & Resort's cash cow, normally achieving gross operating margins between 70% and 80%. The Rooms Division is generally a predictable business that can rely on previous years history, and general economic conditions to forecast business volumes with an accuracy rate of plus or minus 5%. In some cases, planning horizons in the Rooms Division can range over 10 years or more.

In contrast, the Food and Beverage Division is not a cash cow. The Food and Beverage Division generally consists of two major components, Banquets and Food Outlets. Banquet Departments achieves, on average, gross operating margins between 30% and 40%. A hotel's banquet business is a reasonably predictable business comprised of two principal sources, meeting and social catering. Meeting business is reliant on the Rooms Division's convention business as its primary business source. Banquet volume forecasts for banquet meeting business are generally available at least a month in advance. Banquet Departments use previous years' meeting histories to determine their business volume within accuracy ranges of approximately plus or minus 10%. The banquet convention business achieves profit margins of between 30% and 40%.

The unpredictable portion of the Banquet Department's business is referred to as local and social catering business. Local and social catering business is not predictable year over year. The profit margins on this business are lower than that of the conference business, ranging from between 25% and 35%. In addition, competition is fierce for this type of business putting additional downward pressure on profits and margins. The variation associated with a hotel's changing meeting to local social catering mix makes the Banquet Department one with limited financial predictability. The Department tends to work on short timelines of only one month in advance.

The Food and Beverage Outlets, also referred to as hotel restaurants, are the other major component of the Food and Beverage Division. Food and Beverage Outlets are an extremely unpredictable business, facing intense competitive pressure from other restaurants and hotel companies. Food and Beverage Outlets rely on drop-in business

from within the hotel, and the surrounding local area. Starwood Hotels & Resort's Food and Beverage Outlets are notorious for their poor business volume forecasting, with accuracy rates that range between plus or minus 50% of the forecast on any given day.⁷¹ The gross profit margins in Food and Beverage Outlets range between 20% and 30%.

The Rooms and Food and Beverage Divisions are fundamentally different business types. The Rooms Division is a high margin, predictable business that operates on extremely long timelines. In contrast, the Food and Beverage Division is comprised of a variety of low margin businesses that can be wildly unpredictable. Based on the profitability and operational requirements of these two businesses, the Rooms and Food and Beverage Divisions are not similar to each other.

Forcing the two business divisions to operate under one operating unit has caused structural problems for Starwood Hotels & Resorts. Operating both of these divisions using a conglomerate management structure has forced the Rooms, and Food and Beverage Divisions to compete against each other for investment funds. This competition forces Hotel Managers to compare the business cases of the Rooms Division to those of the Food and Beverage Division. The higher profit margins of the Rooms Division provide it with a permanent structural advantage over the Food and Beverage Division. Consequently, the Food and Beverage Division constantly struggles to secure additional funding for operations and capital investment. The Food and Beverage Division's inability to secure adequate investment causes it to be in a persistent state of neglect within the organization.

⁷¹ Starwood Hotels & Resorts, Improve Food & Beverage Outlet Scheduling, Analysis Research

Operating the Rooms Division and the Food and Beverage Divisions as one operating unit also forces Hotel Managers to seek non-existent synergies between the two different departments. Consequently, Rooms Division and Food and Beverage managers are trained to manage each other's departments. Likewise, associates for each department are trained and encouraged to be able to work in both divisions. This intermingling of the Food and Beverage and Rooms Divisions has allowed the Food and Beverage Managers and associates to unjustifiably seek comparable wages to those of the Rooms Division Department. The result of this situation is that hotel Food and Beverage Division cost structures are inflated when compared to pure Food and Beverage companies.

The operational inefficiencies caused by Starwood Hotels & Resort's mini-conglomerate organizational structure could threaten Starwood Hotels & Resort's exclusive right to manage hotels on behalf of hotel owners. If Starwood Hotels & Resorts is unable to improve the operating performance of its non-Rooms Division departments, hotel owners might make the business case that allowing specialty companies to run the various components of their hotels could provide them with greater profit than Starwood Hotels & Resort's model. Should this occur, different companies would be granted the right to operate the various components of the hotels. For example, specialty restaurant chain operators could approach Starwood Hotels & Resort's hotel owners directly, and offer to run their Food and Beverage Operations separately from the hotel at higher profit levels than Starwood Hotels & Resorts can provide with its current mini-conglomerate model. Granting an operating contract directly to a third party could indicate the beginning of an erosion of Starwood Hotels & Resort's exclusive contract

with hotel owners to manage their hotels. Based on their success with private food and beverage companies, hotel owners might be tempted to seek out specialty firms to run its hotel guest rooms and Banquet Departments as separate units.

4.1.4 Culture Clash Between The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts

The cultural differences between The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts create an atmosphere of distrust and friction between the two companies. This poor relationship prevents The Westin Bayshore Resort & Marina from successfully implementing Starwood Hotels & Resort's strategy of differentiation through innovation.

The cultural differences between the two organizations are caused by the different ways that their cultures evolved. The Westin Bayshore Resort & Marina's culture has been shaped by a strong and influential union based background, whereas a series of stock market mergers have contributed to Starwood Hotels & Resort's rapidly evolving culture.

The fundamental cultural differences between The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts cause constant friction and distrust between the associates of the two firms. The Westin Bayshore Resort & Marina's lifestyle based culture stands in opposition to Starwood Hotels & Resort's goal focused culture. These cultural differences dictate what motivates the two groups. Where The Westin Bayshore Resort & Marina's associates strive to achieve a balance between work and life over working conditions, Starwood Hotels & Resort's associates focus on meeting their firm's goals and financial objectives. Starwood Hotels & Resort's relentless drive to meet its

goals and objectives are perceived by The Westin Bayshore Resort & Marina's associates as threatening. From The Westin Bayshore Resort & Marina's associates' perspective, the drive towards achieving these goals will result in an erosion of their lifestyle through more working hours and a decline in their work/life balance. From Starwood Hotels & Resort's perspective, The Westin Bayshore Resort & Marina's associates appear slow and uninterested in the company. Additionally, The Westin Bayshore Resort & Marina's associates are seen as rejecting any desire to complete rapid product implementation. These two opposing cultural views result in persistent friction between the two groups.

The high value The Westin Bayshore Resort & Marina associates places on tenure, as opposed to Starwood Hotels & Resort's value on growth, is another key friction point between the two firms. Whereas The Westin Bayshore Resort & Marina's associates respect the years of service they have completed at The Westin Bayshore Resort & Marina, Starwood Hotels & Resorts does not consider this important. The Westin Bayshore Resort & Marina's associates are threatened by Starwood Hotels & Resort's lack of respect for tenure, and as a result, are suspicious of their motives. The Westin Bayshore Resort & Marina's associates are apprehensive that any changes implemented at The Westin Bayshore Resort & Marina are designed to erode their tenure.

The ongoing friction and distrust between the two firms, in conjunction with The Westin Bayshore Resort & Marina's focus on tenure, will continue to prevent The Westin Bayshore Resort & Marina from successfully implementing Starwood Hotels & Resort's differentiated strategy. This failure will result in a continued strong resistance to change at The Westin Bayshore Resort & Marina.

4.2 Issues Affecting The Westin Bayshore Resort & Marina

The redevelopment of the Coal Harbour neighbourhood surrounding The Westin Bayshore Resort & Marina from a mixed-use industrial fringe area of the city, to an upscale, residential neighbourhood has rapidly increased the resale value of all real estate surrounding and including The Westin Bayshore Resort & Marina. The increasing demand for luxury condominiums in the Coal Harbour, in combination with the fact that the area is expected to reach its build out capacity prior to 2010, could result in The Westin Bayshore Resort & Marina being worth more if it were converted to free hold condominiums.

5 RECOMMENDATIONS

5.1 Managed Hotel Contract Structure

In order to secure the increased capital funding levels that Starwood Hotels & Resorts requires to support its differentiated strategy, it should increase the capital investment percentages in its management contracts. Starwood Hotels & Resorts could justify increased investment levels to hotel owners if there was a guarantee of higher income for hotel owners, in exchange for increased investment. Starwood Hotels & Resorts could also assume some of the risk for this strategy by including penalties against themselves in the event of non-performance. Increasing the capital investment percentages in its hotel contracts would allow Starwood Hotels & Resorts the ability to rapidly implement products in its managed hotel portfolio. The increased funding would solve the chronic funding problems that currently plague Starwood Hotels & Resorts, preventing it from rapidly implementing new products throughout its managed hotel portfolio.

In exchange for the increased investment levels Starwood Hotels & Resorts should also provide hotel owners with guarantees of higher income. The higher income for hotel owners will be the result of increased market share that Starwood Hotels & Resorts is able to achieve from being the first hotel company to successfully execute a differentiated strategy.

In order to provide the owners with assurances that Starwood Hotels & Resorts will provide them with increased income, it should also assume some of the risk

associated with this strategy by including non-performance penalties into its management contracts. Including non-performance clauses in the management contracts would provide more incentive to Starwood Hotels & Resorts to meet its financial commitments to hotel owners. By assuming the additional risks associated with their differentiated strategy, Starwood Hotels & Resorts will also prove their sincerity and commitment to hotel owners and provide more incentive for hotel owners to commit to the increased capital investment levels.

Being the first company to secure increased capital funding levels would allow Starwood Hotels & Resorts to obtain a permanent competitive advantage over its competitors. Due to the long timelines associated with negotiating the increased capital investment levels, Starwood Hotels & Resorts could derive considerable advantage over its competitors by being the first to achieve increased capital investment commitments from its hotel owners. Its competitors, unable to make their hotel owners commit to increasing their capital investment levels fast enough, would be unable to replicate Starwood Hotels & Resort's differentiated strategy.⁷²

Starwood Hotels & Resorts will regard this idea as extremely radical. Currently Starwood Hotels & Resorts is able to operate in a relatively conservative environment, assuming little to none of the risks associated with its managed hotel portfolio. Suggesting that senior Hotel Managers within Starwood Hotels & Resorts embrace a strategy that requires them to assume greater risks while simultaneously modifying all of their owned and managed hotel organization, will be difficult in a firm that avoids

⁷² Ed Bukszar, "Strategic Management" (EMBA Lecture Series, Simon Fraser University, Vancouver, BC, March 2005)

change. Obtaining the commitment and support of Starwood Hotels & Resort's senior managers will be paramount in order to make this idea work.

5.1.1 Increase Leverage Using Hotel Ownership

Starwood Hotels & Resorts should use the financial leverage it can derive from its owned hotel portfolio to persuade hotel owners to increase their capital investment levels. The following paragraphs will explain this concept.

Starwood Hotels & Resorts has a large owned hotel portfolio of 140 hotels that it could use to prove the viability of any of its product implementations. Starwood Hotels & Resorts could use these properties as test sites where it could monitor the improved financial performance that has resulted from its new products. It could then use the results from the pilot testing at its owned hotel properties to prove to its managed hotel owners the viability of implementing the new products at their hotels.

Starwood Hotels & Resorts does not currently take advantage of its ability to leverage increased capital investments through its owned hotel portfolio. Although there are instances in which Starwood Hotels & Resorts has used this technique to encourage implementing new products, these situations occurred through happenstance. Currently, there are no official policies for product testing at its owned hotel assets. This oversight is preventing Starwood Hotels & Resorts from obtaining increased capital investment from its managed hotel owners.

5.2 Organizational Structure

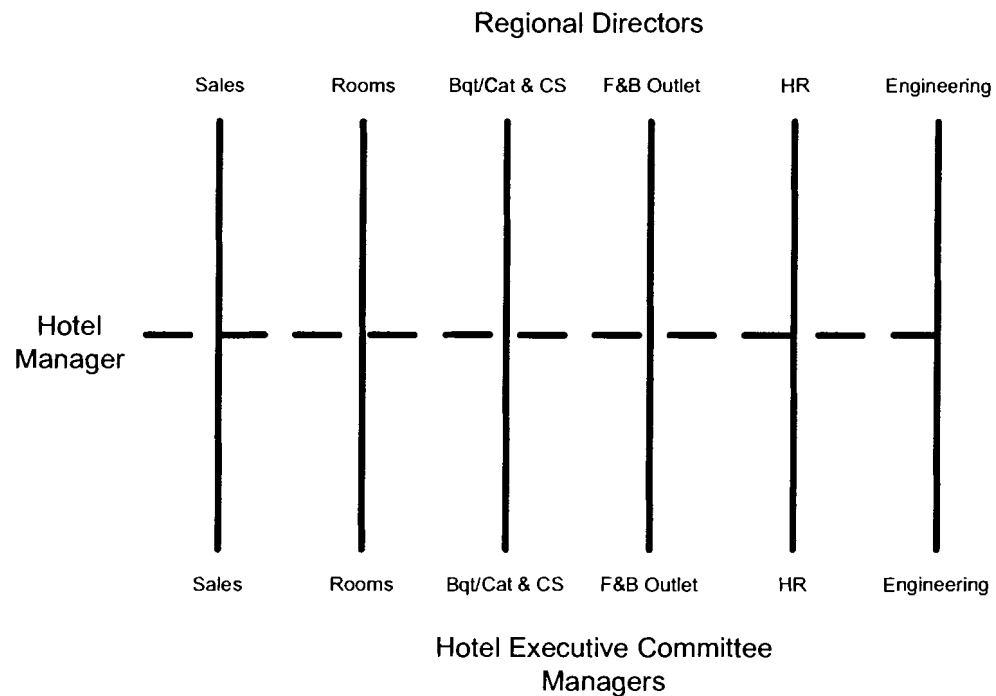
Starwood Hotels & Resorts should consider disaggregating its main functional units in its hotels into separate operating divisions. This will allow Starwood Hotels &

Resorts to better execute is differentiated product strategy. Disaggregating its functional divisions will also allow Starwood Hotels & Resorts to pinpoint the inefficiencies that are inherent in its structure. The following paragraphs will describe this proposed organizational structure.

Starwood Hotels & Resorts should disaggregate the conglomerated bundle of services at the hotel level into primary functional areas and have them report directly to area Regional Directors. The Regional Directors would, in turn report directly to Starwood Hotels & Resorts Corporate office. The new functional areas of Starwood Hotels & Resort's hotels would be Sales, Rooms Division, Banquets/Catering and Convention Services, Food and Beverage Outlets, Human Resources and Engineering. The Accounting Department should be removed from the hotel properties and consolidated into a regional office.

The General Manager position should be converted to a Hotel Manager. The Hotel Manager would have ultimate responsibility for onsite guest service and guest experience delivery. In order to provide the Hotel Manager with necessary authority to perform solve any service related challenges that occurred at the hotel, all hotel department heads would report to the Hotel Manager as subordinate dotted line managers. This would maintain a single point of contact for guests at the hotel. All responsibility for the design and delivery of work processes would be removed from the hotel manager position. Responsibility for these tasks would be assigned to the hotel's functional division department heads and their new Regional Director Managers.

Figure 25: Revised Organizational Chart



Dividing the hotel operations into primary operating units would remove the bottleneck between the regional and property levels, and increases the capacity of Starwood Hotels & Resort’s organizational structure to implement product innovation. Instead of forcing all product innovations to pass between the General Managers before they are implemented at hotels, the new structure would allow Starwood Hotels & Resorts to move innovation directly from the Regional Directors, to the hotel properties through multiple access points.

Another benefit of dividing hotel operations into distinct operating units is that Starwood Hotels & Resorts will remove a barrier at which resistance to change occurs within the organization. In their current position with Starwood Hotels & Resorts, General Managers occupy a key position of power and can frequently disrupt a project implementation if they do not support it. Every project that is implemented in a hotel

property requires General Manager sponsorship. Currently projects that do not receive General Manager support quietly disappear into obscurity. However, by removing this position, resistance to change is removed from the organization. Additionally the Regional Corporate Office would gain a direct pipeline into the hotel that would provide them with increased capacity for project implementation.

A risk of disaggregating the hotel units and removing the General Managers from the hotel properties would be an erosion of guest service levels at the hotel level. Removing General Managers as the ultimate authority figure in the hotel leaves each individual department with more autonomy. With the new autonomy, hotel department heads could choose to make changes in their operations that sacrifice hotel service levels in exchange for increased profit. This sub-optimal decision-making process could cause an overall decrease in Starwood Hotels & Resort's revenues if its guests turn to rival hotel companies because of declining or inconsistent service levels.

Another risk that may occur with the removal of the General Manager positions is the loss of a single point of contact for hotel customers. In the hotel industry, customers have been trained to expect that every hotel have a "Manager" who has ultimate control of the property. Hotel guests place high value on the ability to contact this Manager at any time. They also demand that this Manager have the authority to resolve any problem within a hotel. By removing the General Managers from the hotels, this single point of contact would be lost. Customers could perceive there is no one in the hotel capable of responding to their needs. This situation could result in a loss of customers to traditionally organized hotel companies.

Maintaining a Hotel Manager with dotted line responsibility for all Departments in the hotel would mitigate the risk of losing a single point of contact within the hotel. The Hotel Manager would maintain ultimate decision making authority over all guest related incidents at a hotel. This model is currently used on a small scale within the hotel industry. When General Managers are away from their hotels, they frequently appoint an acting hotel manager, who is empowered to handle interactions with guests in their absence. In many instances the absence of the General Manager goes unnoticed by guests, as they are not aware they are speaking with General Manager's acting replacement.

5.2.1 Removing Operational Inefficiencies of Conglomerate Structure

Dividing each of the major hotel divisions into separate operating units would improve their mediocre operating performance. Instead of being headed by a generalist, each of the units would be run by a division specialist. Instead of constantly falling victim to management by crisis, the specialist division heads would be available to focus on their own functional areas, managing them in a more proactive and efficient manner. This increased focus will allow the specialty division managers to implement improved operating efficiencies into their operating units.

Another benefit from unbundling the three business units would be that they would be forced to adopt a full costing approach to reporting financial results. The application of full costing to the financial statements would allow realistic comparisons to be made between similar operating units. Financial comparisons would become possible both within the company, as well as against other companies outside of the hotel industry.

For example this would allow food outlet performance to be fairly compared to other hotels' outlets and independent restaurants within the city.

Applying the full costing method to Starwood Hotels & Resort's hotel operating units would enable it to monitor the true costs of the cross subsidization that exists between the three operating units. Calculating the costs of these subsidies would allow the business units to charge appropriately for their services. Competition between business units would force managers throughout the entire hotel to make more rational decisions with respect to how they consume each other's services. For example, it is currently customary for the Rooms Division to sell last minute convention bookings to clients. Frequently, these sales require the Convention Services Department to relocate large pieces of social catering business, for which they receive no financial credit. Under the new organization, the Rooms Division would likely be forced to pay the costs of relocating the social catering group. This would force the Rooms Division Manager to consider lowering the price of guest rooms to encourage more transient traffic as opposed to having to pay the Banquet Department surcharges. By separating Starwood Hotels & Resort's hotel business units into separate operating units, its managers would be forced to make more rational operational decisions. This would result in greater profits for each of their divisions, as well as for Starwood Hotels & Resorts and the hotel owners.

The sub-optimization of the guest experience is one possible risk associated with disaggregating hotels into functional units. As each of the new, independent departments strove toward increased efficiencies, the overall guest experience could be eroded. This paper previously discussed how hotel guests experience the hotel in experience bundles, and, as such, they do not differentiate between the different departments of the hotel. The

different operating departments, left alone under the new structure of the hotel, would choose different optimal service levels for their areas, resulting in possible variance of service levels within the same hotel. Whereas the Rooms division might choose a high quality high service model, the Food and Beverage Outlets might opt for a high volume adequate quality model. The overall integrity of the hotel product would be eroded, as guests would experience variable service levels within the same hotels. In the face of this service variation, guests might choose competing hotel companies.

Starwood Hotels & Resorts could prevent the sub-optimization of the guest experience by forcing hotel divisions to adhere to a set of common service standards across the entire organization. Starwood Hotels & Resorts could gain advantage from its new structure by calculating the actual costs of meeting these service standards. Using these calculations, Starwood Hotels & Resorts could force the operating units with the highest profit levels who set the high quality standards, to pay for the costs of the additional service standards they require.

There is an example of a possible scenario, taking into account the above recommendations. Under the new disaggregated structure the Food & Beverage Outlet Division discovers that the optimal restaurant outlet is a one that uses a low volume, high quality model. A restaurant of this type would have limited seating capacity and likely only be open for one meal per day. However, Starwood Hotels & Resort's standards require the outlet to run a three meal per day restaurant. The Food & Beverage Outlet could then force the Rooms Division to pay the difference in the operating costs of operating the new restaurant, or, change their restaurant standards.

With the advent of centralized accounting systems such as SAP, the requirement for on-site accounting personal has been substantially reduced. Although some audit procedures must be completed on-site on a daily basis, the majority of accounting positions could be moved to an off-site location. Moving the accounting office to a low cost region of the country would allow Starwood Hotels & Resorts to provide accounting services at a lower cost than its current on-site hotel accounting model does.

5.2.2 Increasing Bargaining Leverage Through Disaggregating Functional Areas

By disaggregating its functional departments Starwood Hotels & Resorts would gain considerable bargaining leverage over any third party vendors or sub-contractors. If Starwood Hotels & Resorts chose to contract out portions of its business instead of running them itself, it could use its geographic leverage to force the bidding companies to present better prices. For example, if Starwood Hotels & Resorts chose to sub contract out its Food and Beverage Outlet operations, it could include the Food and Beverage operations of all of its hotels in that transaction. This would allow Starwood Hotels & Resorts to extract considerable advantage from the bidding company. In comparison, a single hotel would not be able to exert this leverage.

Disaggregating the functional departments of its hotels would also allow Starwood Hotels & Resorts to evaluate the cost benefits associated with sub-contracting out portions of its operations to third parties. By proactively evaluating the benefits of sub-contracting out portions of its operations, Starwood Hotels & Resorts can deter its hotel owners from doing this independently without their involvement. By taking control of the sub contracting process on behalf of its hotel owners, Starwood Hotels & Resorts

can also ensure that it shares in the financial benefits of any sub-contracting agreements with its hotel owners.

Starwood Hotels & Resorts can derive a competitive advantage on the price of sub-contracting out to third parties, over independent hotel owners. Using its size and geographic dispersion as leverage, Starwood Hotels & Resorts could force third party vendors to provide it superior pricing and contract conditions in exchange for its large volume. Independent hotel owners would be unable to produce this leverage and, therefore, would be unable to obtain the prices that Starwood Hotels & Resorts could.

5.3 Implement Performance Incentives at The Westin Bayshore Resort & Marina

In order to resolve the culture clash between Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina, The Westin Bayshore Resort & Marina should implement a performance-based incentive system at the hourly associate level of The Westin Bayshore Resort & Marina.

The culture clash between The Westin Bayshore Resort & Marina and Starwood Hotels & Resorts is based on deep-rooted differences in the way the two firms have evolved. Culture clash between the two firms will continue to persist if no action is taken to change the culture of one of the firms. Due to the fact that Starwood Hotels & Resort's is pursuing a differentiated strategy that requires a flexible organization capable of sustaining rapid change, its culture should become the dominant culture. Starwood Hotels & Resort's culture is more capable of adjusting to the change its differentiated strategy demands. The Westin Bayshore Resort & Marina should be encouraged to shift

its culture toward a more goal focused one, capable of accepting, and responding to, innovation and change.

The Westin Bayshore Resort & Marina should implement a performance-based incentive plan for all hourly associates at The Westin Bayshore Resort & Marina. Implementing performance-based incentives would reduce resistance to change by linking the associate's performance, and a portion of their pay, to their ability to implement change. Forging a link between pay and change implementation would allow The Westin Bayshore Resort & Marina to implement innovation programs more rapidly.

Implementing a performance-based incentive plan at The Westin Bayshore Resort & Marina would be an extremely challenging task that would require changes through The Westin Bayshore Resort & Marina's collective bargaining agreement with its union. In order to begin these changes Starwood Hotels & Resorts must fully support them. The Westin Bayshore Resort & Marina, in combination with the other unionized hotels under the control of Starwood Hotels & Resorts, would need to identify the key tenants and common legal language that they would include in their performance incentive plans. Starwood Hotels & Resorts should then test the performance incentive plan at its non-union properties and make any adjustments to the program, pending its successful implementation. Based on the learning from the non-union incentive pilot program, Starwood Hotels & Resorts could proceed to include the performance incentive language in the 2007 round of The Westin Bayshore Resort & Marina's union bargaining.

The inclusion of performance-based incentives is a direct assault on the unionized tenure based system. Proposing these changes will likely result in extremely challenging union contract bargaining that could result in a strike. However, until The Westin

Bayshore Resort & Marina makes a fundamental cultural change away from its tenure-based culture, it will be unable to successfully implement Starwood Hotels & Resort's differentiated strategy. Until the associates have an incentive to participate in the strategy, The Westin Bayshore Resort & Marina will continue to experience resistance and friction between its associates and Starwood Hotels & Resorts.

5.4 Conversion of The Westin Bayshore Resort & Marina to Condominiums

In order to successfully maximize the value of The Westin Bayshore Resort & Marina's real estate, The Westin Bayshore Resort & Marina's owners must continue to evaluate the financial worth of The Westin Bayshore Resort & Marina operating as a hotel versus converting the property to condominiums. The Westin Bayshore Resort & Marina must compare the net present value of its existing operations to the net present value of The Westin Bayshore Resort & Marina if it were converted to condominiums.

Based on the recommendations of this paper, the valuation of The Westin Bayshore Resort & Marina will also need to take into account the improved cash flows that the new strategy changes will bring about. Therefore the financial valuation of The Westin Bayshore Resort & Marina will be completed using both the existing cash flow forecasts and a cash flow forecast that is increased by 25%.

5.4.1 Estimate of Hotel as a Condominium

The estimates of the value of The Westin Bayshore Resort & Marina if it is converted to condominiums are provided in the following table. The calculations are based on the following assumptions. The estimated number of condominiums at The

Westin Bayshore Resort & Marina is 250 units. The estimated constructions costs are \$200,000 per unit. Construction would begin in 2006 and The Westin Bayshore Resort & Marina would lose the ability to produce income from operations during the years 2006 to 2008.

Table 30: Estimated Value of Resort as Condominiums

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Gross Value of Hotel as Condominiums				
Estimated Number of units as condominium	250	250	250	250
Estimated Sale Price per unit	* \$ 800,000	\$ 857,000	\$ 965,000	\$ 1,000,000
Gross Value of Hotel as Condominiums	\$ 200,000,000	\$ 214,250,000	\$ 241,250,000	\$ 250,000,000
Estimated Building Costs				
Estimated Construction Cost per unit	200,000	200,000	200,000	200,000
Estimated Number of units as condominium	* 250	250	250	250
Estimated Building Costs	50,000,000	50,000,000	50,000,000	50,000,000
Net Value of Property as Condominium				
Gross Value of Hotel as Condominiums	\$ 200,000,000	\$ 214,250,000	\$ 241,250,000	\$ 250,000,000
Estimated Building Costs	- 50,000,000	50,000,000	50,000,000	50,000,000
Net Value of Property as Condominium	150,000,000	164,250,000	191,250,000	200,000,000

5.4.2 Evaluating Ongoing Operations or Conversion to Condominiums

5.4.2.1 Existing Cash Flow Valuation Method

The financial comparison of The Westin Bayshore Resort & Marina as a hotel versus its use as a condominium is as follows under the existing cash flow forecasts is as follows.

Table 31: Condo versus Hotel Financial Comparison – Existing Cash Flow

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Average Price of Condominium	\$ 800,000	\$ 857,000	\$ 965,000	\$ 1,000,000
Estimated Value of Property as a Condominium	\$ 150,000,000	\$ 164,250,000	\$ 191,250,000	\$ 200,000,000
Less: Current Value of property as hotel	\$ 164,029,050	\$ 164,029,050	\$ 164,029,050	\$ 164,029,050
Less Present Value of lost income from construction	\$ 26,533,707	\$ 26,533,707	\$ 26,533,707	\$ 26,533,707
Gain or Loss	\$ (40,562,757)	\$ (26,312,757)	\$ 687,243	\$ 9,437,243

Therefore using the existing cash flows to evaluate the worth of The Westin Bayshore Resort & Marina, if the average price of a condominium in the Coal Harbour

area exceeds \$965,000 per unit, The Westin Bayshore Resort & Marina’s owners receive a higher return on their investment by converting The Westin Bayshore Resort & Marina to a condominium complex.

5.4.2.2 Improved Cash Flows

The financial comparison of The Westin Bayshore Resort & Marina as a hotel versus its use as a condominium is as follows under the existing cash flow forecasts is as follows.

Table 32: Condo versus Hotel Financial Comparison - Improved Cash Flow

Assumption: 25% increase over existing cash flow				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Average Price of Condominium	\$ 800,000	\$ 857,000	\$ 1,081,400	\$ 1,100,000
Estimated Value of Property as a Condominium	\$ 150,000,000	\$ 164,250,000	\$ 220,350,000	\$ 225,000,000
Less: Current Value of property as hotel	\$ 193,130,734	\$ 193,130,734	\$ 193,130,734	\$ 193,130,734
Less Present Value of lost income from construction	\$ 26,533,707	\$ 26,533,707	\$ 26,533,707	\$ 26,533,707
Gain or Loss	\$ (69,664,441)	\$ (55,414,441)	\$ 685,559	\$ 5,335,559

Therefore, assuming that The Westin Bayshore Resort & Marina can achieve a 25% improvement in cash flow from implementing the strategy changes in this paper, Marina, the average price of a condominium in the Coal Harbour will need to exceed \$1,081,400 per unit before The Westin Bayshore Resort & Marina’s owners receive a higher return on their investment by converting the property to a condominium complex.

5.4.3 Calculation of Current Coal Harbour Real Estate Values

An approximation of the current real estate sale price of Coal Harbour has been calculated by obtaining the published sale prices of condominiums in the immediate vicinity of The Westin Bayshore Resort & Marina. Data for this calculation was obtained from the Canadian Multiple Listing Service. Based on this sample of 16 properties, the average sale price of a Coal Harbour condominium is \$1,236,681.

Table 33: Average Sale Price of a Condominium Located in Coal Harbour

Coal Harbour Average Real Estate Prices As at July 30, 2005 Option 1: All values included			
Address	Square Feet	Listing Price	Price per Square Ft
402-560 Bayshore Dr	680	\$399,000	\$587
1503-717 Jervis St	1,582	\$638,000	\$403
1650 Bayshore Dr	1,119	\$649,000	\$580
509-560 Bayshore Dr	1,072	\$668,000	\$623
704-1710 Bayshore Dr	1,018	\$699,000	\$687
705-560 Bayshore Dr	1,072	\$749,000	\$699
1401-1650 Bayshore Dr	1,215	\$799,900	\$658
1102-0560 Cardero St	1,186	\$828,000	\$698
803-1650 Bayshore Dr	1,304	\$949,000	\$728
1702-1710 Bayshore Dr	1,470	\$992,000	\$675
1501-1616 Bayshore Dr	1,517	\$1,075,000	\$709
1901-1616 Bayshore Dr	1,517	\$1,195,000	\$788
2401-1616 Bayshore Dr	1,588	\$1,298,000	\$817
1803-500 Cardero St	3,100	\$2,680,000	\$865
2202-323 Jervis St	2,860	\$2,980,000	\$1,042
2602-323 Jervis St	2,860	\$3,188,000	\$1,115
Average	1,573	\$1,236,681	\$730

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⁷³ Canadian Multiple Listing Service, Results of Real Estate Listing Search of Condominiums on Bayshore Dr, Cardero St and Jervis St on July 30, 2005. <http://www.mls.ca/PropertyResults>

A more conservative calculation of these real estate values was calculated by removing properties with prices per square foot greater than \$1,000. Under this method, the average price of a Coal Harbour Condominium is \$972,779.

**Coal Harbour Average Real Estate Prices
As at July 30, 2005
Option 2: Extreme values excluded**

Address	Square Feet	Listing Price	Price per Square Ft
402-560 Bayshore Dr	680	\$399,000	\$587
1503-717 Jervis St	1,582	\$638,000	\$403
1650 Bayshore Dr	1,119	\$649,000	\$580
509-560 Bayshore Dr	1,072	\$668,000	\$623
704-1710 Bayshore Dr	1,018	\$699,000	\$687
705-560 Bayshore Dr	1,072	\$749,000	\$699
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1702-1710 Bayshore Dr	1,470	\$992,000	\$675
1501-1616 Bayshore Dr	1,517	\$1,075,000	\$709
1901-1616 Bayshore Dr	1,517	\$1,195,000	\$788
2401-1616 Bayshore Dr	1,588	\$1,298,000	\$817
1803-500 Cardero St	3,100	\$2,680,000	\$865
Average	1,389	\$972,779	\$680

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5.4.4 The Condominium Decision

The average sale price of \$972,779 does not exceed The Westin Bayshore Resort & Marina's threshold value of \$1,081,000. Therefore The Westin Bayshore Resort & Marina's owners should not proceed with converting The Westin Bayshore Resort & Marina to condominiums until such time as the average sale price of Coal Harbour Area condominiums exceeds their threshold value.

⁷⁴ Ibid

5.4.5 Conclusion

Based on the analysis contained in this paper, the mutually beneficial solution for Starwood Hotels & Resorts and The Westin Bayshore Resort & Marina is to complete the following changes to its organization. First it should implement the changes to its managed hotel contract structure. Second, both firms should implement the organizational changes outlined in the recommendations chapter of this paper, including the removal of operational inefficiencies from of their mini-conglomerate structure and disaggregating the Westin Bayshore Resort & Marina into functional disciplines. Third, the firms should also begin the implementation of performance incentives at The Westin Bayshore Resort & Marian, as outlined in the recommendations chapter.

Implementing these changes would provide increased profits as a result of improved strategic alignment with Starwood Hotels & Resort's differentiated strategy. Starwood Hotels & Resorts would derive increased profits from the larger management fees it would receive from The Westin Bayshore Resort & Marina. The Westin Bayshore Resort & Marina would receive the direct benefits of increased revenues through the successful execution of Starwood Hotels & Resort's differentiated Strategy.

The final recommendation, the conversion of The Westin Bayshore Resort & Marina into condominiums, based on the appreciating land value of the property, should be used by the resort as a fall back position to protect it from the possibility that the differentiated strategy does not provide it with increased profits. This fall back strategy can be made more attractive if The Parent Company times any future condominium conversion of the property to coincide with a planned renovation. Using this strategy will provide The Parent Company time to evaluate Starwood Hotels & Resort's differentiated

strategy, while still gaining the benefit of increasing land values. Additionally this strategy minimizes The Parent Company's capital investment into The Westin Bayshore Resort & Marina⁷⁵.

⁷⁵ Ed Bukszar (Professor), Simon Fraser University, interview by D'Arcy Coon, July 2005

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