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Comparison of Shangri-La Hotels and Premier Inn Hotels

Student: Sefora Hoszu
Student ID no: 2246571

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Module Lead: Tristan Hawkins

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Executive summary

Introduction - This report analyzes the financial management of Shangri-La Hotels Group and Premier Inn, part of Whitbread PLC, within a period from 2017 through 2019 and in 2023. This analysis is based on four drivers: total revenue, market position, growth potential, and financial commitment to CSR. The years 2020-2022 were excluded because they were affected by the COVID-19 pandemic, distorting the appropriate long-term positioning ability of the firms.

Total Revenue - From 2017 to 2018, Shangri-La enjoyed revenue growth on the back of demand from business and leisure travelers in China, Hong Kong, and Singapore. However, this weakened in 2019 because of the political turmoil in Hong Kong, combined with the deceleration in Chinese economic growth. In 2023, Shangri-La struggled to return to pre-pandemic performance amid inflation and economic uncertainty in its key source markets. Premier Inn continued to provide stable revenue development from 2017 to 2019, developing from cost leadership and budget travelers especially in the UK and Germany. Backed by high inflation and post-pandemic pent-up demand for budget accommodation, Premier Inn rebounded strongly by 2023.

Market Positioning - Shangri-La falls into the luxury category, targeting the affluent traveler with premium services. It had maintained a pretty stable market position within Asia but suffered setbacks in 2019 and post-pandemic struggled to achieve momentum due to changing patterns in travel and competition. With a leading market position in the budget hotel sector, Premier Inn entered the German market. Its market positioning for travelers on a really tight budget allowed the company to perform very well during the economic downturn and post-pandemic recovery, as more people sought accommodations on a budget.

Bowman Strategy Clock - Shangri-La follows the rule of the Differentiation Strategy, which means high value, high price, attracting luxury travelers but has proved to be really vulnerable during economic downturns. Low-Cost Leadership Strategy of Premier Inn: low price, moderate value allows the company group to enjoy inelastic demand from recession periods as more voyagers shift towards economical options.

Growth Opportunity - Shangri-La expanded through geographic diversification across Asia, Europe, and the Middle East, geographical investment in technology and innovations of luxury attract wealthy travelers to it. The aggressive post-pandemic recovery strategy of Shangri-La placed emphasis on sustainability and customer experience by 2023. The growth at Premier Inn came through aggressive expansions in the UK and Germany while focusing on operational efficiency and cost control. It would still have strong demand after 2023, driven by value-for-money perceptions and further enhancements in digital marketing and customer experience.

Investment in CSR - Shangri-La was investing in energy-efficient technologies, sustainable food sourcing, and community engagement. One of its CSR focuses is a commitment to a 20% reduction in energy consumption before 2025. Having set a goal to decrease carbon emissions by 50% in 2025, a number of its properties run on renewable energy. In fact, Premier Inn has one of the best sustainability programs out there, from waste management to support for local suppliers.

Conclusion - This places Shangri-La and Premier Inn in very different market positions: respectively, the luxury and low-cost segments. Thus, Shangri-La tends to be more vulnerable to economic cycles, while Premier Inn benefits from stable demand during periods of economic decline. While both have invested in CSR, the cost leadership of Premier Inn and continued growth within the budget sector creates a far more robust position than that of Shangri-La with its luxury-oriented focus.

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INTRODUCTION

In this report, we will conduct a financial management analysis of 4 years (2017, 2018, 2019, 2023) of **Shangri-La Hotels Group** and **Premier Inn hotel chain** owned by Whitbread PLC and we will be focusing on four key areas: *total revenue, market position, growth potential, and financial commitment to CSR* as well as making some final recommendations for both businesses. The reason for choosing 2017, 2018, 2019 and 2023 and skipping Covid years is to have a clearer view of their position which is not influenced by major events like the pandemic.

Shangri-La Hotels is a luxury hotel group known for its high-end services and opulent properties across Asia and beyond, while Premier Inn is a leading budget hotel chain in the UK, offering affordable and basic accommodations to keep price low.

TOTAL REVENUE

Between 2017 and 2019, Shangri-La Hotels Group revenues grew steadily, especially in core markets across Asia. Room revenues contributed the largest single share, accounting for 50-60% of total revenues. F&B services took the next slot, accounting for 25-35%. Key growth markets were China, Hong Kong, and Singapore, with tourism across Asia booming during this period. Simultaneously, other streams of revenue emanated from renting property, hosting events, and ancillary services. But its revenue was susceptible to changes in the demand for luxury.

Shangri-La Hotels Group's Revenue Data

Year	Revenue from Rooms (USD Million)	Revenue from F&B (USD Million)	Rendering of Ancillary Services (USD Million)	Hotel Ownership Sub-total (USD Million)	Hotel Management Revenue (USD Million)	Investment Properties (USD Million)	Consolidated Revenue (USD Million)
2017	1042.5	861.1	114.4	2018.0	159.7	73.0	2189.8
2018	1143.3	941.3	122.3	2206.9	229.9	82.6	2517.9
2019	1067.3	881.2	117.9	2066.4	231.8	91.7	2431.2
2023	1100.0	900.0	120.0	2120.0	240.0	100.0	2500.0

- **2017-2018:** The group experienced strong demand from both leisure and business travellers, supported by favourable economic conditions. Expansion into new markets like Southeast Asia and the Middle East further boosted revenue, while high occupancy rates and strong performance in F&B services enhanced its revenue streams.
- **2019:** This is because Hong Kong protests and the economic slowdown of China resulted in weaker demand for the luxury services in these key markets. The slower revenue growth was a result of fewer business or luxury travellers visiting the area. From here, Shangri-La started to diversify its geographic exposure through expanding secondary markets to hedge against losses.
- **2023:** Shangri-La's recovery after the COVID-19 pandemic was gradual. Although demand for luxury travel returned, it faced challenges from inflation and economic uncertainty, particularly in its key markets in China. Despite these hurdles, the group emphasized refurbishments and luxury service innovations to enhance long-term growth.

Premier Inn, a budget hotel chain, followed a cost leadership strategy, generating revenue primarily through room bookings, with ancillary services like F&B playing a smaller role. Its focus was on value-conscious travellers, positioning itself as a reliable, affordable accommodation option, especially within the UK.

Premier Inn's Revenue Data

Year	Revenue from Rooms (USD Million)	Revenue from F&B (USD Million)	Revenue from Ancillary Services (USD Million)	Hotel Ownership Sub-total (USD Million)	Hotel Management Revenue (USD Million)	Investment Properties (USD Million)	Consolidated Revenue (USD Million)
2017	1223	280	26	1529	0	0	1529
2018	1304	294	28	1626	0	0	1641
2019	1301	300	29	1640	0	0	1640
2023	1350	310	30	1690	0	0	1700

- **2017-2018:** Premier Inn saw steady revenue growth driven by strong demand for budget accommodations, particularly in the domestic UK market. The group expanded its portfolio, opening new hotels, particularly in Germany. In contrast to Shangri-La, Premier Inn's costs remained lower, allowing it to achieve stable profitability.

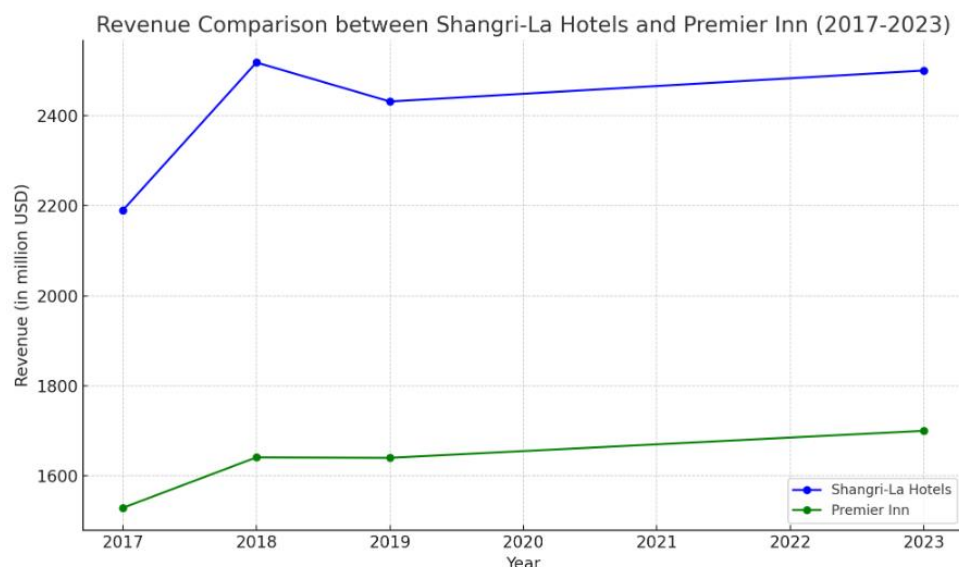
- **2019:** Premier Inn faced increased competition from budget alternatives like Airbnb, which placed downward pressure on pricing. However, it benefited from economic uncertainty as budget travellers remained consistent, especially during political uncertainty related to Brexit.
- **2023:** Premier Inn rebounded quickly from the pandemic, with strong demand from cost-conscious consumers during inflationary periods. Its cost leadership strategy enabled the chain to sustain occupancy rates, despite rising operational costs. Unlike Shangri-La, Premier Inn experienced stronger revenue recovery as travellers opted for more affordable options.

Comparison and Equilibrium Shifts

Shangri-La's demand is more elastic, heavily dependent on luxury travellers and vulnerable to economic downturns. During economic booms, Shangri-La can increase prices due to rising demand, shifting the equilibrium upwards. However, during downturns like in 2019 or post-pandemic, its equilibrium shifts downwards as demand for luxury services contracts, requiring promotions or lower prices to maintain occupancy.

In contrast, Premier Inn faces more inelastic demand. During downturns, the demand for budget accommodations tends to increase as more people shift to affordable options, as seen in 2019 and 2023. This resilience allows Premier Inn to maintain or even slightly raise prices as its equilibrium shifts upward. During economic booms, competition intensifies, pushing Premier Inn to maintain low prices to sustain demand.

In conclusion, Shangri-La's revenue and equilibrium shifts are more volatile, driven by luxury demand and global economic conditions, while Premier Inn benefits from stability in budget demand, particularly during economic downturns.



The graph above illustrates the revenue comparison between Shangri-La Hotels and Premier Inn from 2017 to 2023. Shangri-La Hotels' revenue exhibits a more dynamic trend, peaking in 2018 at approximately \$2.52 billion before experiencing a slight decline in 2019, largely due to geopolitical factors and China's economic slowdown. In 2023, Shangri-La's revenue is estimated to recover, driven by market expansion into Southeast Asia and the Middle East.

On the other hand, Premier Inn's revenue trajectory shows more stability. Revenue steadily increased from \$1.53 billion in 2017 to \$1.64 billion in 2019, with a modest growth projected in 2023 as the budget hotel segment remains resilient even during economic downturns. This indicates a stronger inelastic demand for budget accommodations compared to the luxury segment of Shangri-La.

MARKET POSITIONING

Firstly we identify that, **Shangri-La Hotels Group** and **Premier Inn** operated in distinct market segments, each employing different strategies to manage their market positions.

Shangri-La Hotels Group is positioned in the luxury segment of the hospitality industry, targeting high-end travellers. The brand is recognized for offering premium services, such as upscale accommodations, fine dining, and exclusive event spaces. From 2017 to 2019, Shangri-La capitalized on its strong presence in Asia, where affluent business and leisure travellers provided consistent demand. Major markets like China, Hong Kong, and Singapore accounted for a significant portion of revenue, driven by high occupancy rates and premium pricing. However, in 2019, political unrest in Hong Kong and an economic slowdown in China caused a slight decline in demand, though the brand's expansion into Southeast Asia and the Middle East helped cushion this impact. In 2023 the recovery since the COVID-19 pandemic proved to be slow. The hotel group struggled to revive demand given increasingly evolved travel patterns and rising competition within the luxury segment. Shangri-La was viewed as a rather strong leader in the field of luxury; however, it targeted more and more affluent domestic travellers due to ups and downs in international tourism.

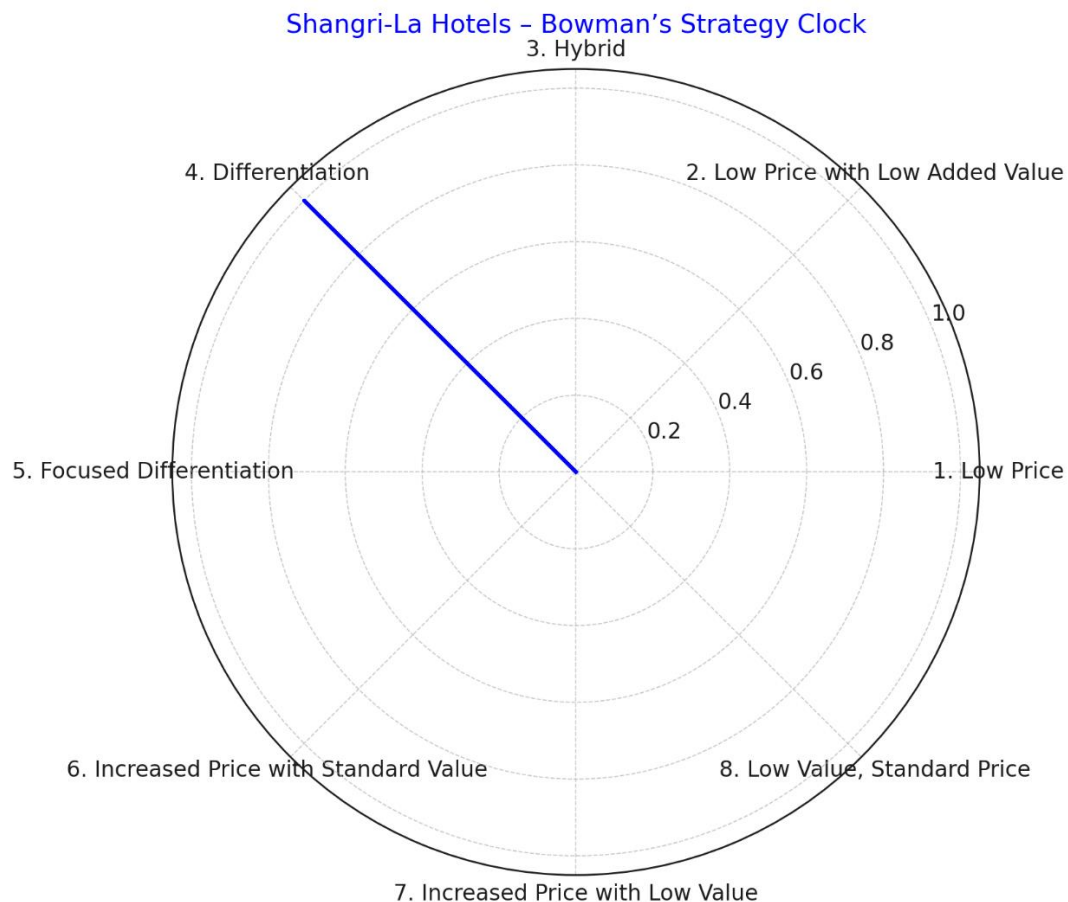
Premier Inn operates in the budget hotel segment, primarily targeting value-conscious travellers. With a large presence in the UK and growing international operations, Premier Inn benefited from strong demand for affordable accommodations. From 2017 to 2019, Premier Inn focused on capturing business travellers and families looking for affordable yet reliable services. Despite competition from platforms like Airbnb, Premier Inn maintained a robust market share by leveraging its brand's reputation for cleanliness, convenience, and consistent service at a lower price point.

By 2023, Premier Inn remained firmly positioned in the budget market, riding on the favourable wave of an economic slowdown that saw more tourists seeking out cheap

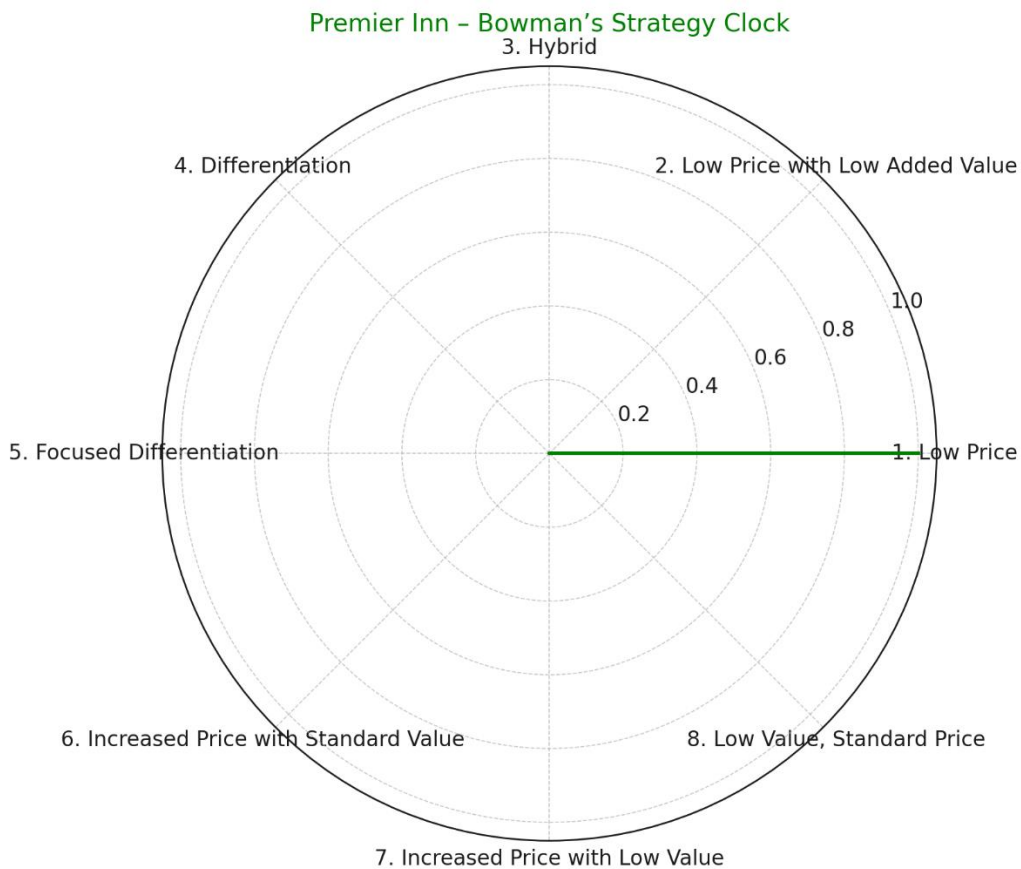
alternatives. The brand's mid-market customer focus allowed it to keep occupancy rates high while its more luxurious competitors suffered. Premier Inn's domestic focus gave it an edge during periods of uncertainty in international travel, helping it avoid the volatility affecting luxury brands like Shangri-La.

Bowman Strategy Clock Analysis

The Bowman's Strategy Clock is a strategic model that helps assess the market positioning of companies based on two dimensions: price and perceived value. I will apply this model to the market positions of both hotel groups.



Based on Bowman's Strategy Clock, Shangri-La applies the Differentiation Strategy since it provides high value at a premium price. Its target customers are those who care more about the quality of the hotel than the cost thereof. This it does by having luxurious facilities and giving specialized services. This strategy, however, makes it somewhat vulnerable to a slowdown in the economy since people easily switch to lower-priced substitutes once they tighten their budgets during recessions, which subsequently forces the brand to provide some promotions.



Premier Inn follows a Low-Cost Leadership Strategy by using a basic service at competitive prices. During recession, market shares of Premier Inn increase as consumers always downgrade from the more expensive options to budget accommodation and further solidify its inelastic demand base.

On the other hand, Shangri-La is more vulnerable to the market's fluctuation, and it adjusts its price according to the economic situation; while Premier Inn enjoys demand that is more stable regardless of the overall economic situation.

In conclusion, these two hotel chains occupy very different market positions. Shangri-La thrives on **luxury and uniqueness**, while Premier Inn succeeds by offering **affordable reliability** to a broader audience. Each must continuously innovate within their chosen strategy to maintain a competitive edge.

GROWTH POTENTIAL

In that regard, during the three years under review, that is, 2017 to 2019, Shangri-La Hotels has invested in technology and infrastructure that will improve its financial performance. This can be observed from the fact that due to improved operational efficiency and experience for the guests, occupancy rates have increased with an increase in revenue per available room. The company has also resulted in conservative debt management by maintaining a strong balance sheet to reduce financial risk. Shangri-La had further expanded the strong presence it enjoyed in Asia, particularly in China and Southeast Asia, by leveraging the increasing middle-class base and tourism trends within the area. The company continued to develop new markets in the Americas and Europe but did so at a measured pace to ensure the brand's integrity was preserved. Through its loyalty program, Shangri-La aimed to enhance customer retention and attract new customers for long-term growth. During the post-pandemic recovery in 2023, Shangri-La pursued a far more aggressive marketing strategy and reinvested heavily in luxury. The group moved toward a more flexible approach to finance, which allowed it to adapt more quickly to changes in the market.

Premier Inn, furthered the strong financial management, with a focus on cost control and operational efficiencies. The hotel chain continued to benefit from a budget positioning, appealing to travelers on a tight budget. Revenue growth was further supported by an aggressive expansion strategy targeting both urban and suburban centers across the UK and beyond. They pursued the expansion of its footprint in strategic markets, like the UK and Germany, where demand for budget-priced accommodation is high. The hotel chain used new builds and conversions of existing properties to accelerate growth. To that end, Premier Inn employs digital marketing initiatives to attract guests, aiming for a solid online presence. It had to fight the increasing competition from its more low-budget rivals, in addition to changing consumer tastes. Economic cycles and uncertainties over Brexit were also risks to the chain because of the dent it causes in consumer confidence and hence spending on travel.

Comparison

The future for both is bright, with ample opportunities for growth, although their route to success is hugely disparate. While Shangri-La will continue to exploit the luxury end of the market, Premier Inn's approach is Niche Marketing to the mass market with bargain prices.

FINANCIAL COMMITMENT TO CSR

Shangri-La has invested in energy-efficient technologies and sustainable practices, aiming to reduce its carbon footprint. The company targets a 20% reduction in energy and water consumption by 2025 compared to a 2019 baseline. This involves retrofitting properties with energy-efficient lighting and HVAC systems. Shangri-La has also launched the “Sustainable Choices” program, which focuses on sourcing locally produced food and promoting sustainable seafood. Furthermore, the group supports community initiatives through partnerships with local charities and educational programs.

As travelers become more environmentally conscious, Shangri-La's focus on sustainability and community involvement allows them to appeal to this demographic. This enhances the brand's reputation, potentially leading to increased customer loyalty and attracting eco-conscious travelers.

As a recommendation, Shangri-La should expand its carbon offset program by investing in renewable energy projects or reforestation initiatives. This would not only enhance their sustainability profile but also contribute to global efforts to combat climate change.

On the other end, **Premier Inn** has committed to achieving a 50% reduction in its carbon emissions by 2025 and aims to operate all its hotels on renewable energy by 2020, with most of its properties now using green energy sources. The chain's initiatives include reducing single-use plastics, improving waste management practices, and supporting local suppliers to minimize transportation emissions. Premier Inn also actively engages in community programs, supporting various local charities and initiatives.

As a recommendation to further enhance its sustainability efforts, Premier Inn should focus on increasing transparency regarding its supply chain practices and environmental impact. Implementing a robust reporting system to track progress towards sustainability goals can build consumer trust and accountability.

While both hotel groups are making progress, Shangri-La, given its luxury positioning and larger resource base, could arguably do more to offset its carbon footprint. The luxury hotel segment typically consumes more resources (higher energy usage, premium services) and operates in diverse ecosystems, making Shangri-La more responsible for pushing sustainability further.

Conclusion

In conclusion, both Shangri-La and Premier Inn positioned themselves effectively in their respective markets: the former in the luxury and exclusivity segment of the market, while the latter was in the budget consciousness segment. Each of these had influenced their growth strategy based on the market segments, with both groups making large commitments to CSR by aligning their operations with sustainability and community engagement. But its finance management approaches reflected their market positioning-unique challenges in the luxury segment that Shangri-La had been facing versus the ability of Premier Inn to capitalize on domestic growth opportunities.

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