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CHOICE HOTELS
I N T E R N A T I O N A L .

CHOICE HOTELS INTERNATIONAL, INC.

BMBM6016 STRATEGIC MARKETING

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Executive Summary

This report will focus on the analysis of Choice Hotels International, an internationally recognised brand with more than 7000 locations globally. The analysis consists of evaluation on its internal and external environment utilising PESTLE analysis, SWOT analysis, McKinsey 7S Model and Porter's Five Forces. This report has included the current stance the Group is holding in light of the pandemic internally and externally, the efficacy of their strategy before and during the pandemic, and their future prospects post pandemic. This report also includes a couple of recommendations for the hotel to implement to come back stronger after the disastrous two years the hospitality industry had to endure. It is concluded that the Group is not too far off from its competition and has the ability exceed investors expectations.

1.0 Introduction

There has been many debates as to how it originates, but one thing is for sure that ground zero is Wuhan, in the People's Republic of China. This specific strain of the coronavirus was first documented in December 2019, hence its name, COVID-19 (WHO, 2022). The Chinese Government tried to cover it up but things got way out of hand and the virus started to pop in different countries all around the world. By March 2020, most of the countries in the world had gone into lockdown in order to curb the spread of the virus. The epicentre of the pandemic has shifted from Wuhan to Europe, which by the time had attributed to 40% of the total reported cases (WHO, 2022). The lockdown measures introduced by governments around the world meant that there will no longer free travel, including halting the tourism industry.

The Choice Hotels International Group is no exception when it comes to the devastating effects of the COVID-19 pandemic. The Group first opened its doors in 1939 under the flag Quality Courts United, and is now operating about 7000 brands in more than 40 countries under its flag, and the toll of the pandemic has been excruciatingly painful for them (Choice, 2022). They served a broad range of market, from first class luxury with their Clarion and Ascend Hotel Collection brand, to their budget friendly Econo Lodge and Rodeway Inn brands. The company had managed to rake in USD403.6 in earnings before tax for their financial year 2021, which is an 8% increase from their 2019 performance (Choice, 2022). This is all despite the fact that the US hotel revenue per room has decreased dramatically from almost 90% to below 40% in mid 2020, and recovered to only under 60% in 2021 (Krishnan, 2020). Therefore, this report will utilise 4 different models to analyse the internal and external environment of the Group and how they reacted and can react to the pandemic.

2.0 Market Analysis

2.1 PESTEL

Environmental analysis is critical for establishing a long-term competitive advantage, detecting possibilities and challenges, and facilitating fruitful collaboration with other businesses. PESTEL, which stands for Political, Economic, Social, Technological, Legal, and Environmental factors, is what is used to analyse the external environment of an organisation. A corporation may benefit from PESTEL study in two ways. First, it helps the organisation to identify the environment in which it works. Second is to give data and information that will help the organisation to anticipate future scenarios and conditions (Yüksel, 2012). For this report, only the political and economical aspects will be discussed.

2.1.1 Political

Because of COVID-19's high transmissibility and the fact that asymptomatic patients can be infectious, traditional infection prevention control strategies such as active case identification, contact tracing, and selective seclusion and isolation may not be enough to stop spreading, primarily when infection rates are high. As a result, several governments have implemented community-wide 'lockdown' procedures to stop epidemics from spreading exponentially (Haider, 2020). This meant that movement of tourists is restricted, or in some places is halted altogether.

In the United States, the primary country of operation for Choice Hotels International, different states has their own sets of COVID-19 restrictions (Rough, 2022). This has made it difficult for the Group to streamline their operations to their maximum efficiency. Therefore, it is difficult for the top management to fully devise a proper strategy that would work in all of the 50 states all at once. Though it is possible to devise strategies for each state, it would be inefficient and not financially viable, increasing operating costs. This would be more of a hassle since the regulations are constantly changing with every new findings about COVID-19 (OECD, 2022).

This is even worse for locations in densely populated areas where reported cases are a lot more than rural areas. Urban areas have become local epicentres for clusters to emerge due to their concentrated population, emphasising the difficulties in classifying or forecasting where the virus may emerge. Busy metropolitan areas that are usually tourists hotspots with foreign visitors and international investors are typically where these new variants would emerge and are disproportionately affected (OECD, 2022). Because of the physical proximity of major metropolitan regions, contagion could transmit extremely faster if preventative, protective, or confinement precautions are not implemented early enough. Choice Hotels that are located in urban areas are typically the ones that provide most of the income in each region. So, a major outbreak in the city would be financially destructive.

Hence, concentrated lockdowns are far more desirable as they do not affect a wide area, typically just affecting a singular neighbourhood, suburb, town or city (Asashi, 2022). If 2 of Choice Hotels branches are located in the same province and COVID-19 restrictions are placed on that entire province instead of a concentrated area, then both of those branches are affected. Hence, concentrated lockdowns are more desirable for lawmakers to impose since it gives them the power to open or close a specific part of the local economy depending on the severity of the viral spread.

2.1.2 Economical

As a result of the lockdown measures, economic activities had decreased by 10% to 15% (Asashi et. al., 2021). This rate is double than counties that are not imposed by the same lockdown measures. This is due to the fact that government movement restrictions does not only apply on human beings, but also trading activities which accounts for global shipping as well (OECD, 2022). As people are going into self isolation, there would be less demand for goods and services, which in turn would make import and export for goods less desirable for companies. This also comes with the combination of a decline in business travel for investment opportunities.

These COVID-19 restriction measures would probably not be as destructive to multinational giant companies, but small and medium enterprises (SMEs) have been hit particularly hard (Asashi et. al., 2021). Unemployment and the amount of people seeking assistance have both risen significantly, in some cases considerably. In the UK according to Figure 1, unemployment was at 4.8% from January 2021 to March 2021 (King, 2022). Nevertheless, the unemployment rate has been gradually decreasing since the fall. Most analysts had expected unemployment to be substantially higher. This is partially due to companies being more adept at dealing with lockdowns, including the government paying billions for companies to sustain jobs (King, 2022).

Nonetheless, the increase in unemployment from the start of the pandemic means that people have less disposable income to spend on unnecessary things such as traveling or shopping. To some extent, some people have to fork out their savings to survive the lockdown. To alleviate the effects of the economic crisis, several nations "decided to exit" viral confinement procedures, only to be confronted with a rising wave of cases in fall 2020, threatening restoration. According to OECD projections given in September 2020, real world GDP would fall by 4.5% in 2020 before increasing by 5% in 2021 (OECD, 2022).

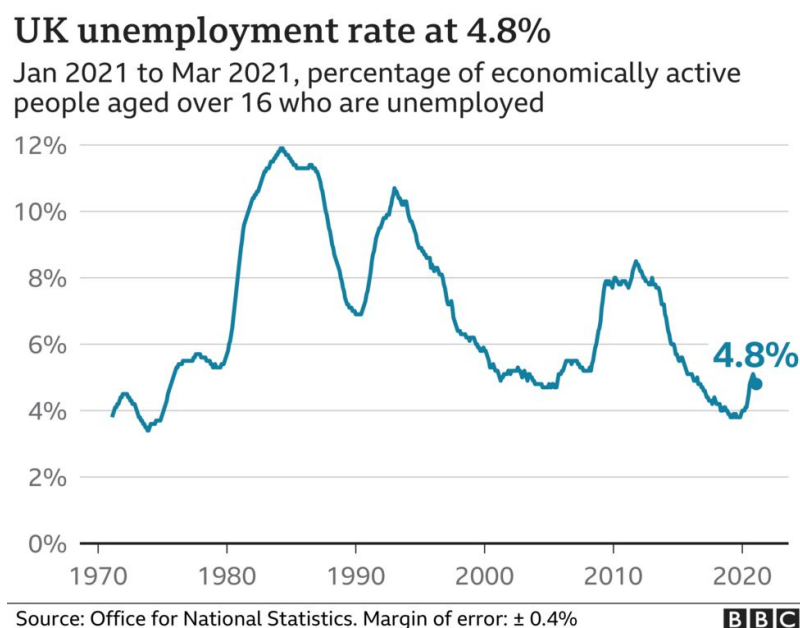


Figure 1. Unemployment rate in the UK

Source: BBC

2.2 SWOT

The study of enterprise systems' strengths, weaknesses, opportunities, and threats (SWOT) is popular among business researchers at significant corporations. Many organisations use SWOT analysis in business strategy, quality assurance, and the formulation of government policies and laws. SWOT actions, in particular, require a lot of publicity in the modern environments situations, especially when building and marketing strategic plans for various industrial scenarios (Namugenyi, 2019). This report will focus on the strengths of Choice Hotels International and how those strengths contributes to their competitive advantage.

The Group pretty much has an extensive network scattered around the world, especially in the United States as shown in Figure 2. The Group has a total of 7,118 locations globally, with 5,608 of those are in the US alone (Choice, 2022). This allowed the Group to cater to as much of its target population as possible, together with its concentrated presence in urban and densely populated areas (Sperance, 2021). Apart from that, their presence at rural areas allowed them to take advantage of the lack of competition in those areas. The Group is also smart enough to build their hotels near major national highways which gives drivers and travellers a place to crash after their long drive or them to rest before continuing their journey.

Furthermore, the Group does not only focus on one specific target population such as luxury travellers or cost-conscious hipsters. As shown in Figure 3, the Group caters to almost every type of travellers, from economical travellers all the way up to upscale travellers. This shows that the company has a highly diversified portfolio which allows them to catch as much market share as possible (Markides, 1997). Therefore, the Group will have a steady streamline of revenue no matter how the economy is doing, with the exception of the COVID-19 restrictions. A majority of their hotel is upper midscale at about 1938 locations as of 2015, due to the fact that 120.8 million Americans are middle income households (Frangoul, 2015). This might not stay long though as seen with the pandemic. Therefore, the Group must proactively adapt to the changing economy

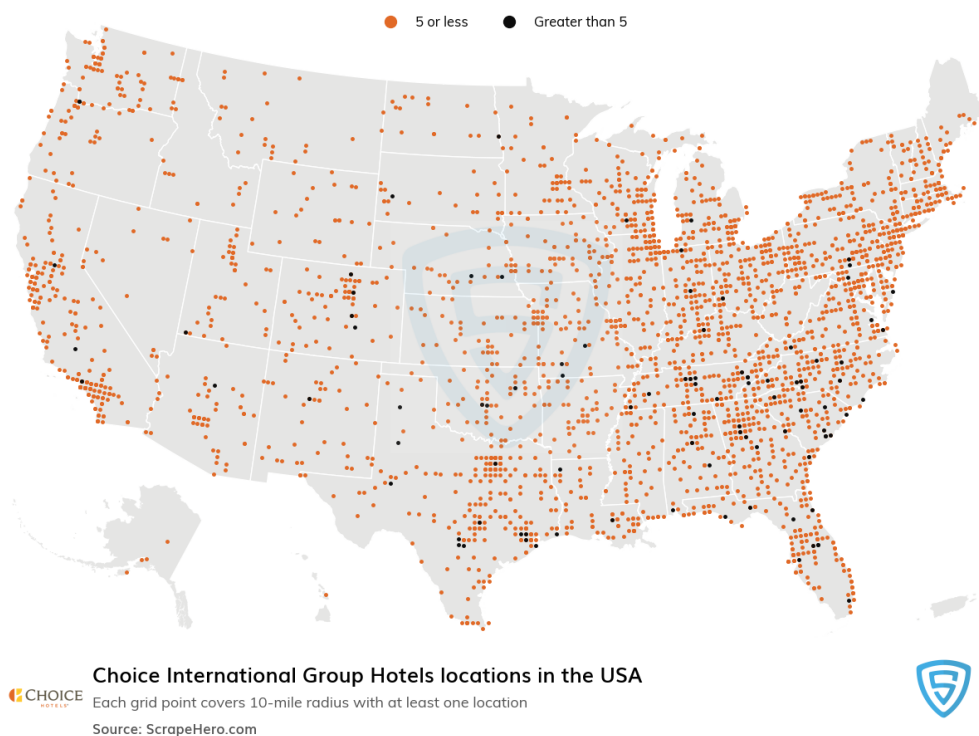


Figure 2. Choice Hotels International locations in the USA.

Portfolio Overview

	Brand	Number of properties	Number of rooms	Occupancy (%)	Average daily room rate (ADR)	RevPAR
Upscale	Ascend	112	9,407	60.4%	\$126.84	\$76.58
	Cambria	24	2,917	NA ^(a)	NA ^(a)	NA ^(a)
Upper Midscale	Comfort	1,188	92,029	64.6%	88.94	57.47
	Comfort Suites	574	44,311	68.0%	93.13	63.33
	Clarion	176	24,626	56.8%	79.89	45.35
Midscale	Sleep Inn	374	26,913	64.0%	79.91	51.18
	Quality	1,325	105,950	58.0%	74.49	43.20
Extended Stay	MainStay Suites	48	3,656	69.0%	76.73	52.94
	Suburban	63	7,065	74.6%	47.14	35.16
Economy	Econo Lodge	854	52,963	53.3%	59.29	31.60
	Rodeway Inn	488	27,095	56.7%	59.16	33.54
Total / Average		5,226	396,932	61.0%	\$79.35	\$48.37
International		1,153	107,425			
Total		6,379	504,357			

(a) Statistics for average occupancy percentage, ADR, and RevPAR have been excluded for years in which the brand did not have at least 25 units open and operating.
 Note: Number of properties and rooms are as of September 30, 2015. Operating statistics are trailing twelve months as of September 30, 2015.
 Source: Company's public filings, management data

Figure 3. Choice Hotels International portfolio.

2.3 Porter's Five Forces

Porter's five forces model is founded on the idea that an organisation's approach should be tested against the favourable circumstances and risks that exist in its external environment. Recognising market dynamics and how they evolve is critical to developing a strategic plan (Bruijl, 2018). According to Porter, the strategist's goal is to understand and manage a fierce competition by gazing at rivals or considering a larger viewpoint that contends with the business. Using an external approach, the five forces model is a powerful and simple instrument for identifying specific abilities in a specific business issue. The model outlines five microenvironmental pressures that drive competitiveness and risk a company's capacity to profit (Grundy, 2006). Out of the five forces, threat of new entrants, threats of substitutes, intensity of rivalry, power of suppliers and buyers, this report will focus on the threat of substitutes for Choice Hotels International.

2.3.1 Threats of substitute

Finding alternatives entails looking for goods or services that can perform the same function as those produced by the industry in question. Switching prices, regulatory challenges in developing markets between alternative goods or services and products, and customer desire to purchase alternatives are all aspects that might impact the threat of substitute products or services (Bruijl, 2018). In the hospitality industry, the threat of substitute used to be so scarce, or even nonexistent. This is due to the fact that the only substitute to hotels is to just stay at home. However, the world has gone through huge technological advancements. Substitutes that exists nowadays now include Airbnbs, Club Meds, couch-surfing, and backpacking.

Alternatives do not pose a danger to the hotel industry in any major city, with the exception that in recessionary periods, where in this case, domestic travel will substitute for international travel. Due to technical advancements, alternative items can theoretically accomplish the same purpose, save money, or give superior quality performance and greater service. For more cost-conscious traveller, they might opt to stay at hostels such as YMCA,

motels or stay with their relatives at their destinations (Cheng, 2013). This will work for that specific market. For the higher end market, however, used to be dominated by business travellers, who travels across the world for business meetings. When everyone has gone into isolation, cross-border business meetings are now replaced with online virtual Zoom calls which is almost always free. Even if the greatest potential COVID-19 outcomes are achieved, a Deloitte 2022 travel forecast assessment indicated that business travel this year will not match or be close 2019 levels. After working well with so few visits, firm leaders are inclined to maintain to evaluate travel spending and profitability (Schlangenstein, 2022).

2.4 McKinsey's 7S Model

The McKinsey's 7S model (Waterman, Peters, and Phillips, 1980; Peters and Waterman, 1982) provides a resource-based assessment of an organisational strategic capabilities, particularly recognising seven components: 1) Strategy; 2) Structure; 3) Systems; 4) Style; 5) Staff; 6) Skills; and 7) Shared Values. The model was created to outline the primary aspects that lead to an organisation's ability to achieve its strategic goals, especially in regard to change (Cox et al., 2019). The first three components are frequently seen as "hard", being more solid and quantifiable, and hence simpler to handle. Because they are more intangible and difficult to govern directly, the other components are considered "soft". The "staff" component of this framework will be analysed for the purpose of this report.

The term "staff" refers to the employees of a corporation, as well as the size of the personnel, their motivations, and how they are taught and equipped to do the duties at hand (Kenton, 2021). Throughout its global activities, Choice Hotels International employs a vast number of people. Workers for various job types and positions are employed both internally and externally, based on the magnitude of urgency and competence necessary. As a result, it is clear that Choice Hotels International employs talented people in their job duties and positions. To acquaint themselves with the organisation and its ideals, all workers get on-the-job training. For skill level advancement, both external and in-house training is available. All employment functions and positions are structured to aid in the fulfilment of business objectives, and as a result, the hotel chain's staff level of skill is adequate to fulfil corporate objective.

After a long period of layoffs, shutdown, and decreased hours, the pandemic had touched every position in the hospitality industry. Choice Hotels International has permanently decreased its personnel just six months into the crisis as part of its measures to protect the company's long-term viability (Hotelier Magazine, 2020). Retrenchment by businesses instils in workers the dread of losing their jobs, increasing their job instability (Jung et al., 2021). As a result, workforce and expense adjustments in the hospitality business—such as requiring staff to take or accept leave without pay, reassignments, and lower wages resulted in major

job insecurity within hotel industry employees (Chen & Chen, 2021). With many hotels using skeleton workers in order to increase profitability, the relationship between management and workers is altering once more. Improving staff engagement may help businesses stay competitive and grow in a sustainable way (Chen & Chen, 2021). As a result, improving staff association with their business to increase team cohesion during the pandemic is necessary to guarantee that staff work together with management to overcome challenges that arise. Furthermore, as demand grows and hoteliers recruit new personnel or rehire existing ones, the workforce will need to be trained in additional service expectations, notably cleaning practises that are in compliance with the standard operating procedures.

3.0 Recommendations

A number of suggestions can be made to help Choice Hotel International adjust to future risks. For starters, Choice Hotel International should adapt its business strategy to fit changing market and client needs in order to increase customer traffic and generate steady revenue. Offering special room packages, with daily sanitisation of rooms for guests could attract more customers as they would feel safe from the virus. Additions of new facilities with a bigger space to increase the capacity size and social distancing manners compensate for lost revenue during the pandemic's initial shock. However, all actions must be reported to health officials in order to meet the COVID-19 safety standard established by government agencies.

Furthermore, investments in new technologies such as mobile applications may stimulate innovation, increase brand recognition, and reduce safety risks. Using mobile application software, customers are able to check-in seamlessly, make reservations for any hotel facilities and request for anything they need. Many firms are using "contactless" strategies as well. Customers are also able to request for housekeeping, additional towels or any toiletry needs through the mobile application as it can prevent close contacts between customers and workers. These not only stop viruses from spreading, but they also boost customer happiness and service quality, as it is easier for them to acquire their wants and needs from a press of a button. All of them have the potential to have a large positive impact on Choice Hotel International, but each has its own set of pros and cons. When considering new technologies, Choice Hotel International should consider everything in hand, including its cost, profitability, legislations and guidelines.

4.0 Conclusion

Conclusively, Choice Hotels International has a lot to offer for its customers with what it had developed throughout the years and what it can give post pandemic. The Group can offer special packages for travellers that are coming back after the pandemic without compromising their health and safety, both for visitors and staff. Additionally, the Group can invest in innovative technologies such as developing mobile applications to cater more to the younger generations that would catch their attention and allow for a more convenient holiday experience. Apart from that, mobile applications can also increase brand recognition by exhibiting its establishment, as well as reducing health risks by reducing physical interactions. The Group must proactively reroute their resources to implement new changes before the world becomes “normal” again.

(2729 words)

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