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John Keells Hotels IN SRI LANKA: building brand architecture

Ashita Aggarwal, Sulakshana "Lulu" Raghavan, and Ruchi Gunewardene wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In the summer of 2012, Ajit Gunewardene, the president of the leisure sector of John Keells Hotels (JKH), was discussing marketing strategies with his senior management team. JKH was a well-known brand that operated Cinnamon Hotels and Resorts (Cinnamon), Chaaya Hotels, and Resorts (Chaaya) in Sri Lanka and Maldives. Cinnamon and Chaaya catered to different sets of customers with varied value propositions.

The terrorist conflict that had plagued Sri Lanka for 26 years had come to a dramatic close in May 2009, with the defeat of the rebels by government forces. With an immediate impact on the tourism industry—and an influx of tourists from both Western and Asian countries (primarily Indian and Chinese)—a great opportunity arose that could strengthen JKH’s hotel brands and capitalize on the growing global tourism market.

Of the two hotel chains, Cinnamon was the portfolio’s luxury brand, whereas Chaaya was the economy brand, limited to resorts. The senior management team’s task was to decide on a brand architecture that would overcome marketing challenges. It needed to be simple and differentiated from the competition, with the potential for extension into related segments. To help facilitate a structured approach, identify issues, tap into opportunities, and choose the right decisions for future business sustainability, JKH enlisted the services of the brand consultancy firm Brand Finance.

BACKGROUND

John Keells Holdings PLC (John Keells) was Sri Lanka’s largest listed conglomerate on the Colombo Stock Exchange. John Keells was present in almost every major sphere of the economy. The group managed hotels and resorts in Sri Lanka and Maldives; provided ports, marine fuel, logistics services, and information technology solutions; manufactured food and beverages; supervised a chain of supermarkets; brokered tea and stocks; and operated life insurance, banking, and real estate businesses. The leisure division, one of the group’s largest business sectors, included a strong hospitality business through its hotels and various outbound and inbound tours in Sri Lanka.

The goals of the leisure division were to become a business leader and trendsetter in the region. To meet these goals, the company had launched two freestanding brands designed to serve different market segments. Cinnamon, a five-star luxury brand, was launched in 2005 with three hotels. Chaaya, a three-star and four-star resort brand in Sri Lanka and Maldives, was launched in 2006 with nine hotels. The John Keells name was not integrated into the hotel brands, but JKH marketed and endorsed all promotional activities for the two brands. The two brands were conceived to meet distinct needs. They were positioned differently, and they rapidly expanded their footprint in Sri Lanka to become market leaders in their respective segments in most locations.

TOURISM IN SRI LANKA

In 2002, after nearly two decades of ethnic conflict in the country, Sri Lanka signed a cease-fire agreement with the Liberation Tigers of Tamil Eelam. Many parts of the country that had been inaccessible were finally open for travel and tourism opportunities. In addition to acquiring shares in many other properties, in 2003, John Keells purchased two leading five-star hotels in Colombo—Oberoi and Trans Asia—and acquired a 60.5 per cent controlling share in Asian Hotels. In 2005, among renewed conflict in the country, JKH launched the Cinnamon brand to house its collection of hotels, as well as its second-tier hotel chain, Chaaya. With the promise of permanent peace, in 2009, new avenues began to open in the world of travel. The Sri Lankan market once again became the primary focus of JKH. Tourism grew by a staggering 40 per cent after 2009, and international hotel chains began to invest in a stake of the Sri Lanka travel arena. Major investments in the country’s hospitality sector, from both local and international companies, included Aman Resorts, Shangri-La, Marriott, and Mövenpick.

CHALLENGES FOR JKH

When the Cinnamon brand was launched in 2005, through the flagship property Cinnamon Grand, it set the benchmark for five-star hotels in the country. However, with each passing year, the upscale market become more crowded with the entry of many new hotels from competitors such as Shangri-La, Mövenpick, Aman Resorts, Anantara, and other boutique hotels. The mid to lower end of the market, occupied by three-star and four-star resort hotels, was also getting crowded with new brands such as Ozo, Citrus, Amari, Amaya, Centara, Jetwing, and Heritance. The JKH management team was acutely aware that international companies were associated with both quality and perceived value, adding pressure to ensuring these international standards of quality image and affordable room rates were represented in its local luxury brands, including Cinnamon and Chaaya.

The tourism marketing industry was also changing dramatically. The global travel agents who once catered to tourists were being affected by the rapidly growing emergence of direct hotel bookings via the Internet. The new access to bookings required hotel brands to market directly to potential customers, bypassing conventional tour operators.

All these factors suggested that JKH’s leadership in Sri Lanka would be compromised if the company was not proactive. The management team was aware of the situation and, to meet the challenges, began embarking on a fresh approach that included strengthening and aligning the brand management team, enhancing marketing budgets, refurbishing existing hotels, and building new ones.

During the period of conflict, the level of marketing and brand building was kept at a minimum. In 2007-08, JKH had spent only LKR860, 000 million per year,[[1]](#footnote-1) well below investments made by global brands during that time (see Exhibit 1). JKH planned to significantly increase its direct sales over the Internet, raising its advertising and promotions (A&P) ratio to more than 2 per cent of revenue.

Sri Lanka’s hospitality market comprised six broad segments (see Exhibit 2). Cinnamon focused on both discerning frequent individual travellers and business travellers who sought value and customized experiences. Chaaya, on the other hand, accommodated tourist groups and tours for domestic markets seeking standard packages, value for money, and safety. Cinnamon was a relatively premium offering that promised comfort, creativity, and discovery, whereas Chaaya represented value for money and delivered nature and activities (see Exhibit 3).

THE ASIAN TRAVELLER

The opportunities were apparent to Gunewardene and his team, but to prepare the group for future challenges, the team members needed to understand the evolving customers and how their travel preferences were changing. Gunewardene’s team saw India and China as the fastest-growing markets. More and more Indian middle-class consumers were visiting shopping malls, travelling by air, using computers at home, and carrying credit cards or debit cards. The economic growth in India had been centralized in large cities, although smaller towns were feeling much less of an impact. This trend was reflected in the growth of the Indian middle-class population, which was concentrated mainly in large cities and metropolitan areas.

In 2011, the Nielsen Consumer Confidence Index[[2]](#footnote-2) reported high global consumer confidence, especially in India, which had a rating of 126 compared with China at 105 and the global average of 89. Around the world, people were planning to use their discretionary income for holidays and vacations. Chinese travellers had vacations on the top of their list of discretionary spends and Indian consumers chose holidays second, after spending on clothing.[[3]](#footnote-3) India had a premiumization trend, while China had a super premiumization drive. In India, consumers were buying cars that were more expensive and paying for vacations on credit cards. Indian consumers were spending more time on social media than checking email, and recorded the world’s largest Facebook community.

One of the top concerns among Chinese and global consumers was work–life balance, and family holidays were one way to address this issue. Chinese consumers were less likely than Indians to cut down on holidays and vacations to save money. By 2020, China was expected to have more than 100 million outbound travellers, and India was expected to have more than 50 million. In 2011, 38 per cent (down from 50 per cent in 2008) of travellers were middle-aged, married, or single with dependent children. This group was generally labelled “people from the responsible years.” Just below, at 36 per cent (up from 30 per cent in 2008), were travellers who were young and married or single with no responsibility. This group was generally labelled “people from the carefree years.”[[4]](#footnote-4)

In 2011, India and China both showed an increase in mid-affluent travellers, which comprised 62 per cent of the traveller base. Travellers in junior corporate positions or from large businesses comprised 25 per cent of the market. Small-business travellers also increased from 4 per cent in 2008 to 9 per cent in 2011. Primary travel motives included visiting family and friends (28 per cent), leisure and adventure activities (20 per cent), and other miscellaneous reasons, including visiting scenic and natural beauty areas. Singapore remained the top destination for Indian and Chinese travellers, but Malaysia, Dubai, Macau, and South Africa were gaining market share. The customized package segment was small but growing in demand.

Most Indian travellers from Tier 2 cities preferred self-organized tours, which was becoming a lucrative segment, and travelled to meet friends and relatives. Online travel bookings saw an increase from 12 per cent of all bookings in 2008 to 28 per cent in 2011. Local travel agents remained a favourite choice, with a share of 42 per cent. However, the use tour operators generally decreased from 27 per cent of all bookings in 2008 to 15 per cent in 2011. In India, the average spending per visit increased marginally to $1,645 per person among leisure travellers. Although almost 46 per cent of all travel spending was on travel and accommodation, about 23 per cent was spent on shopping.

Compared with Chinese middle-class consumers, Indian middle-class consumers were more connected, both to each other and to the rest of the world, following along the growing popularity of social media. In metropolitan areas, exposure to social networking sites had grown from 2 per cent in 2008 to 5 per cent in 2010. In larger cities, this number grew from 1.8 per cent in 2008 to 4.1 per cent in 2010; whereas, in small cities and towns, it was only 2.5 per cent in 2010 (see Exhibit 4).[[5]](#footnote-5)

Indian middle-class consumers were among the most eager shoppers in the world, focusing their spending on entertainment. They seemed to indulge in retail therapy, with an overwhelming 54 per cent stating that they enjoyed any kind of shopping. In comparison, “any kind of shopping” was enjoyed by only 28 per cent of consumers in Great Britain, 26 per cent in the United States, and 19 per cent in Germany.[[6]](#footnote-6) During their vacations, Indian consumers were frequent shoppers of food and clothes. Research conducted by Kuoni Holidays in 2011 noted that, during their vacations, 50 per cent of Indian travellers spent money on local food, 48 per cent bought clothes, 36 per cent purchased local handicrafts, and about the same percentage of Indian consumers spent money on health and beauty treatments. Women splurged more than men did. Almost 44 per cent of Indian women spent money on beauty treatments, 43 per cent of them went on day trips, 54 per cent bought clothes, 49 per cent purchased local handicrafts, and 32 per cent bought designer items.[[7]](#footnote-7)

The number of frequent individual travellers had increased, and were usually travellers from dual-income households, looking for flexible long-weekend leisure trips or business and incentive travel. These new age international travellers were educated, discerning about their destinations, and seeking new experiences. More and more Indian travellers were venturing into new destinations such as Turkey and Finland for an alternative experience. They were also interested in making historical connections by travelling to such destinations as Bali, Cambodia, and Vietnam. However, this more adventurous and experience-seeking profile was a challenge for destinations such as Malaysia, Thailand, Sri Lanka, and Singapore, which traditionally attracted a large number of Indian tourists. These countries needed to develop new products and create new experiences to avoid the fatigue factor and attract repeat visits from Indian travellers.

Middle-class travellers from China were different. They placed greater emphasis on family life than on careers. However, people in India were more open in their outlook, and focused equally on family life and careers. Interestingly, Chinese consumers were more likely than Indian and Western travellers to see money as the best measure of success. Although Chinese consumers were adventurous and entrepreneurial, they were essentially traditional by nature. Consumers in India, on the other hand, were among the happiest people in developing countries.[[8]](#footnote-8)

According to the Nielsen Outbound Travel Monitor 2011, continued and sustainable growth in the travel market was expected in China.[[9]](#footnote-9) Vacations (both long and short) were Chinese consumers’ priority, which was unlikely to be affected by rising economic pressure. Well-designed and well-marketed packages and services were likely to be popular with Chinese travellers, who were increasingly using online services for bookings. Trip expenditures were growing rapidly, with a significant share (35 per cent) spent on shopping, which was also a key motivation for travelling abroad. Consumers were increasingly confident, stylish, and open to new experiences, niche destinations, and luxury holiday packages.[[10]](#footnote-10)

Long-term prospects were positive for Indian consumers, but they were likely to curb their spending, which could affect outbound travel, although extended self-organized trips were still growing and lucrative. Both online services and social media were already showing signs of becoming powerful tools. Although shopping levels were lower in India than in China, India had a niche market for high-end luxury.[[11]](#footnote-11)

Globally, consumers differed in their decision-making about vacations. For most Europeans, holiday planning involved choosing a destination, things to see, the route, and the hotels. Apart from the destination, which the traveller chose based on recommendations by friends, family, and the media, a great part of their holiday was planned by a travel agent. Even with a wealth of information available on the Internet, most European travellers preferred to seek a travel agent’s advice rather than use the Internet, except when booking well-established and reputed brands. With budget cited as the main consideration in hotel selection, using a travel agent was seen as convenient and less time-consuming, and more likely to provide a favourable price and experience. Frequent travellers to the same city tended to choose different hotels from their friends and family, rather than staying at the same hotel on every visit, but preferred a familiar and well-regarded brand.[[12]](#footnote-12)

As the Nielsen Outbound Travel Monitor 2011 clearly indicated, young couples and family groups were the priority customers for hotels, followed by business groups, friend groups, and business individuals. JKH wanted to attract more young couples and more Indian than Western families, and to host friend and business groups in its city hotels and resorts. However, this shift had its own challenges. Cinnamon had traditionally targeted couples and families seeking a quiet, intimate, and tranquil experience, although the move toward Indian families and groups suggested otherwise. Families and groups would require a more active, vibrant experience based on activities and entertainment, which could dissuade couples from choosing these properties. Business individuals were generally reluctant to stay at leisure resorts, although business groups preferred such locations. Cinnamon management knew that while city hotels would attract a business element, the hotel needed to offer activities and appeal to the business market.

TARGET MARKET AND POSITIONING FOR JKH

In 2011, after JKH had been accommodating all types of travellers, the management team decided that it needed a proposition with a more focused and singular brand strategy. It was not possible for one brand to have multiple propositions; some strategic choices needed to be made. The Cinnamon brand also needed to be positioned as either a global hotel chain that attracted mostly Western customers or a more localized chain that offered a more customized ambience that targeted primarily new Asian travellers. The management team felt that although Asian premium hotels had conventionally looked to the West, particularly Europe, more growth opportunity was available within Asia. The new middle-class segments in China and India were growing faster and were geographically closer to the destination. Therefore, JKH’s management decided to focus on Asian consumers travelling with friends and family groups, without alienating European travellers, who still contributed to JKH’s revenues.

The management team also wanted to re-examine its long-term marketing strategies, by redefining its brands to resonate with the new target audiences—the family and the business traveller—without excluding Western consumers. Secondary data could help JKH understand current trends, but the management team knew that it needed primary research to delve deeper into consumer behaviour. To gather deeper insights into JKH customers and identify the right fit, qualitative in-depth research was conducted among 46 business and leisure customers within three segments: honeymooners, family travellers, and business travellers (see Exhibit 5).

Honeymooners were looking for a unique memorable holiday experience and wanted their vacation to be intimate, experiential, and relaxed. Family travellers were looking for a place full of activities, fun, and laughter, with a variety of experiences for the whole family, seeking entertainment and relaxation on their vacation. Business travellers wanted reputed professional and up-to-date offerings with elements of luxury, where they could entertain clients with ease and pride. These travellers were also interested in having a good time and indulging themselves. While the core takeaway for each segment was relaxation and an experiential time-out, the needs of each segment differed. Therefore, one single offering could not cater to all segments within a specific space (see Exhibit 6).

The professional brand consultants Brand Finance were commissioned to prepare a workshop for the JKH management team. The exercise resulted in many new concepts and ideas for positioning the brand, based on context analysis and consumer understanding. The concepts and tag lines discussed in the workshop included “Be and Become,” which emphasized the individuality of the customer; “Enrich and Stimulate,” which focused on activities and adventure; and “Friends Together;” “Learn and Explore;” “Design Spaces;” “Vibrant Culture;” “Sense and Passions;” “Love Live Life;” and “New Sri Lanka.”

The stakeholders felt that “life” was the best core concept to enhance the JKH brand and help its customers “live life to the fullest,” as in being active, getting the most out of life, and focusing more on a “being” rather than “doing” or “becoming.” The term “inspiration” was chosen as the best word to enhance the concept of “life” because it was more relevant to the target audience (i.e., emerging middle-class Indian consumers) and it was possible to be delivered across various locations. The management team felt that other concepts lacked differentiation. The term “exploring” was more relevant to activities such as safaris or cliff diving, which were used by other hotels and resorts, and the term “enriching” focused on spa and pampering. The management team agreed that the term “inspiring” could be delivered in many ways, through iconic designs, vibrant decors, and cool and stylish experiences. It also implied being active, immersive, and distinctive (see Exhibit 7).

The new positioning and brand values were finally in place. However, Cinnamon’s identity was not yet clear, and customers did not understand the relationship between Cinnamon and John Keells, or between Cinnamon and its sister brand, Chaaya. Because there was no differentiation between Cinnamon and Chaaya, customers were not inclined to pay a premium for the Cinnamon brand. The management team reviewed its portfolio and brand architecture and defined three key strategic objectives: optimize investments, leverage global and upcoming markets, and leverage brands.

THree Scenarios

A well-developed and efficient strategic approach was needed, while also optimizing the impact of potential investments. Based on the global benchmarking and strategic objectives, Gunewardene and his team, along with Brand Finance, shortlisted three brand architecture scenarios, each with its own set of advantages and challenges: (1) JKH brand as a house of brands and as the focus of the marketing initiative so that both Cinnamon and Chaaya brands would be marketed as independent properties under the JKH umbrella; (2) Cinnamon as a hybrid or endorsed brand, under which Cinnamon and Chaaya properties could be promoted; (3) and Cinnamon as the master brand, thus withdrawing the Chaaya brand.

Various strategies for brand architecture were being used successfully in the hospitality sector. Starwood, Accor, and Onyx followed the house of brands model (scenario 1), with multiple freestanding brands leveraged across several geographies and price segments. Marriott’s hybrid-endorsed architecture consisted of many different brands, with a relationship to the master brand (scenario 2). Mövenpick used a master brand monolithic structure (scenario 3).

Choosing the right brand architecture was not an easy task. JKH researched and evaluated all available options for almost one year but seemed unable to reach a decision, so a professional brand consulting company was hired to help. In 2012, JKH conducted consumer interviews at airports and surveyed Cinnamon and Chaaya employees and customers. The company also interviewed 18 intermediaries, ranging from local travel agents to foreign tour operators. Research indicated little or no recognition of the JKH brand by local travel agents or customers, despite considerable spending on launch events (see Exhibit 8).

Foreign tour operators did not ascribe any unique or specific attributes to a brand other than value for money. Conversely, for trade partners, the corporate John Keells brand name had some relevance and value as an endorsement. Its strength in Sri Lanka, and its existing relationship, were thought to be a useful asset for business and trade-marketing strategies in the short term (see Exhibit 9).

The exit polls at the airport with tourists showed a significantly higher awareness level for Cinnamon than for Chaaya, particularly among business travellers and expatriate Sri Lankans. Among business customers, only 16 per cent of respondents were aware of the Chaaya brand, but 66 per cent of tourists were aware of the Cinnamon brand (see Exhibit 10).

Quantitative research was conducted among current and potential employees to determine the relative appeal and relevance of the various brands. A total of 159 respondents were interviewed, of which 127 were John Keells employees and 32 worked for the competition. Of the 127 John Keells employees, 29 were executives. The data suggested that the house of brands architecture (with JKH as serving as a soft reference) was preferred among all JKH employee segments (see Exhibit 11). Chaaya employees were more in favour of the house of brand architecture than were Cinnamon employees. Overall, the house of brands architecture was rated substantially higher on most dimensions. The option of Cinnamon being either an endorsed brand or the master brand was not particularly well received among executives. Both Cinnamon and Chaaya employees felt happier and prouder to work for JKH.

Research also showed that the JKH house of brands model was perceived to be significantly more effective for attracting new employees and was rated very high on improving the image and corporate recognition of the hotels. Similar results were received from employees working for other hotels. Most employees preferred the house of brands architecture because the Cinnamon-endorsed scenario did not include the reassurance that the John Keells name provided. The management team realized that the John Keells reputation for financial stability and reliability could also be useful leverage for other stakeholders in Sri Lanka.

However, the management team worried more about the perception of customers. Although internal stakeholders preferred the John Keells brand, customers were understandably more familiar with the Cinnamon and Chaaya brands than with the JKH business structure, or even the name John Keells.

To help with the decision-making process, it was important to understand the business outcomes for each of the proposed brand architecture scenarios. Therefore, Brand Finance was asked to conduct a branded business valuation, modelling different scenarios and comparing them with the status quo. The branded business value of each scenario was derived through future cash flows and then discounted back to the net present value method. The findings and recommendations were provided to the management team for the final decision.

The different brand architecture options required that two variables be incorporated into each scenario. The first variable comprised forecasted revenue, average room rate, and food and beverage (F&B) revenue expected from increased (and varied) levels of direct marketing expenditure. The second variable consisted of payroll costs, which would differ across various scenarios.

Extensive secondary research was carried out to determine the relationship between revenue and direct marketing expenditure. For example, a study by ResearchGate found a significant positive relationship between marketing expenses and room revenues for all segments, including independent hotels, but excluding economy hotels.[[13]](#footnote-13) Using this research, Brand Finance showed that average A&P expenditure as a proportion of revenues was approximately 4.4 per cent for full-service brands in the United States. This benchmark was used by Brand Finance to establish what the JKH optimal A&P investment should be. By exploring several options, and based on business feasibility, a 150 per cent increase in the A&P budget over the current base case was established as an aggressive, but achievable, budget. This increase worked out to the A&P investment representing approximately 3.6 per cent of revenue—below the 4.4 per cent benchmark, but still within reach.

Using the available research data, Brand Finance estimated that for every increase of 50 per cent on current levels of A&P expenditure, room revenue and F&B revenue would grow by 2–3 per cent. Therefore, a 150 per cent increase in A&P would provide a revenue increase of approximately 8 per cent. Detailed modelling was then carried out for the individual architecture options, for a baseline case and three different scenarios.

Baseline Case

The current brand architecture included a vague association of the John Keells name with the Cinnamon and Chaaya brands as two independent hotels. In the baseline case, an extrapolation of the current levels of revenue, A&P expenditure, and payroll were carried out.

Scenario 1 (House of Brands)

In the first scenario, the Cinnamon and Chaaya brands would be marketed as two independent hotels under the JKH umbrella, with a 150 per cent increase in A&P expenditure over the base case for each hotel, which would result in an 8 per cent increase in revenue for Cinnamon and Chaaya. Payroll cost was assumed to decrease by 5 per cent in each hotel, based on research showing that this model had a positive impact on employee association with the John Keells brand. The cost decrease was justified through lower salaries and pride of affiliation to a prestigious conglomerate.

Scenario 2 (Hybrid or Endorsed Brand)

In the second scenario, the JKH brand would be replaced by a new brand—Cinnamon Hotels & Resorts—with both Cinnamon and Chaaya Hotels operating under the new brand. A similar increase in A&P expenditure (150 per cent) was expected for each hotel, as in the first scenario. However, Chaaya revenue would grow at a slower rate (6 per cent) than Cinnamon (8 per cent), because Chaaya would be overshadowed by the Cinnamon umbrella endorsement. There would be no decrease in payroll costs, unlike in the first scenario, because the John Keells endorsement would not exist.

Scenario 3 (Master Brand)

In the last scenario, Cinnamon would become the sole brand for all JKH companies. Chaaya would undergo gradual rebranding and eventually transform completely into Cinnamon. This scenario assumed that managing a single brand would result in significant economies of scale in regard to A&P expenses and synergies across the portfolio. The A&P budget for the original Cinnamon hotels would increase by 150 per cent, as in the other two scenarios. However, the A&P budged for the Chaaya brand (which would be converted to Cinnamon) would be reduced by 50 per cent, with the remaining 50 per cent of funds allocated to rebranding Chaaya to Cinnamon. Both brands would be expected to grow by 8 per cent in this scenario, with no benefit to payroll costs, as in scenario 2.

The Decision

A branded business valuation was carried out on the baseline case and three scenarios identified by the management team. The intention was not to find an absolute number or outcome for each scenario, but to compare the different outcomes and available options. This analysis would provide the management team with a view of the future, on which a decision could then be made (see Exhibit 12).

The branded business valuation results, with the Brand Finance recommendations, were made available to the management team to make a decision, which would not be simple. Gunewardene and his team needed to provide the John Keells board with a definitive plan—one that would offer a sound business solution and help the hotel sector find its rightful place on the global arena. The plan would need to resonate with customers, and it would need to help the brand leverage and build equity over time. Knowing that the project had been in process for two years, Gunewardene was in a pensive mood as he evaluated all options.

Dr. Ashita Aggarwal is a Professor of Marketing at

S.P. Jain Institute of Management and Research, Mumbai (India).

Exhibit 1: JKH advertising and promotions ratios, 2007–08 to 2011–12

(as a percentage of sales)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2007–08** | **2008–09** | **2009–10** | **2010–11** | **2011–12** |
| Cinnamon Hotels | 1.9 | 2.4 | 2.9 | 1.9 | 1.6 |
| Chaaya Hotels | 2.3 | 1.9 | 1.8 | 1.2 | 1.7 |
| Total both hotels | 2.1 | 2.1 | 2.3 | 1.6 | 1.7 |
| Total A&P spending (in LKR million) | 860,000 | 1,070,000 | 1,590,000 | 1,440,000 | 1,910,000 |
| Taj | Not available | Not available | 4.1 | 4.0 | Not available |
| Starwood | Not available | Not available | 2.5 | 2.6 | Not available |
| Orient Express | Not available | Not available | 6.4 | 5.9 | Not available |
| Banyan Tree | Not available | Not available | 8.5 | 10.8 | Not available |

Note: A&P = advertising and promotion; LKR = Sri Lankan rupee; LKR 1 = US$0.008 on July 1, 2012.

Source: Brand Finance, reproduced with permission.

Exhibit 2: Market segments and their needs in the sri lankan hotel sector

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Market Segment** | **Standard Packages/ All Taken Care Of** | **Safety** | **Value for Money/ Quality Se** | **Well-Being Spas** | **Customized Authentic Experiences and Adventure** | **Instant Confirmation** | **Intimate Offering** | **Exclusivity** |
| Business/ Luxury |  | \* |  |  | \* | \* |  | \* |
| FIT (frequent individual traveller) |  |  | \* |  | \* | \* | \* |  |
| Couples/Honeymooners |  |  | \* | \* | \* |  |  | \* |
| Families |  |  | \* | \* | \* |  |  |  |
| Grey (retired) segment |  | \* | \* | \* | \* |  |  |  |
| Group tours/incentives | \* | \* | \* |  | \* |  |  |  |

Source: Brand Finance, based on market research, reproduced with permission.

Exhibit 3: Value propositions for Cinnamon hotels and resorts and Chaaya hotels and resorts

|  |  |  |
| --- | --- | --- |
| **Value Proposition** | **Cinnamon Hotels and Resorts** | **Chaaya Hotels and Resorts** |
| Brand Pillars | Comfort, creativity, discovery | Value, activity, insight |
| Brand Promise | Affordable indulgence for all ages | Chaaya Hotels will mirror (reflect) its surroundings in food and beverage, architecture, activities, and entertainment |
| Brand Tagline | How may we indulge you? | One journey, many paths |

Source: Brand Finance (as per company documents).

Exhibit 4: Population groups in India and their general characteristics

|  |  |
| --- | --- |
| **Towns:**   * Population is under 100,000. * Family is not complete without a male child. * Religion is important in my life. * A woman’s place is in the home. * I do not want responsibility; I would rather be told what to do. | **Small Cities:**   * Population is 100,000 to 1 million. * May be okay if the wife earns more than the husband does. * May be important to learn new things throughout your life. * I often do things on the spur of the moment. * With a credit card, I can buy stuff I cannot normally afford. |
| **Large Cities:**   * Population is 1 million to 4 million. * You should seize opportunities in life when they arrive. * I am optimistic about the future. * I like to take up new challenges and changes. * A designer label improves a person’s image. * Most of the time, I am trying to lose weight. * It is important for me to be well dressed. * I like to keep up with the latest fashions. | **Metropolitan Areas:**   * Population is above 4 million. * I feel stressed nowadays. * I like taking risks. * I often do things on the spur of the moment. * I want to get to the very top of my career. * I would describe myself as being westernized. |

Source: Brand Finance, reproduced with permission.

Exhibit 5: survey results on Customer expectations

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Expectations** | **Desired Needs** | **Considerations** |
| **Honeymooners** | It is the first time spending money on an expensive holiday and using most of the savings for a honeymoon to pamper themselves and indulge in a bit of luxury. | Looking for a once-in-a-lifetime memorable holiday experience that they can look back to much later | Tranquil undisturbed setting where they have space to be intimate, discover, and have unique experiences for lasting memories |
| They prefer to have variety of experiences, to engage in a range of activities, and to be at a place that is relaxed and quiet:  “I came here because I have heard so much from friends who visited this place. There is so much to see here.” | Experiential-plus  Exploration-plus  Indulgence  Relaxation | Memories they can reminisce, relish, and talk about to others, with setting, ambience, activities, services, standards, and opportunities to experience and explore |
| They prefer hotels that are not crowded, especially with kids. | Intimacy |  |
| Most honeymooners coming to Sri Lanka are given the option to travel around to experience the country and culture and travel to Maldives to enjoy a very slow-paced relaxing holiday on the beach. | Packaged variety of experiences | Magical place where they can escape to a space of indulgence and intimate experiences at the start of their life together |
| **Family Travellers** | They expect more of a holiday for the kids than for the parents. For parents with older kids (18–20 years old), it is family time and time to relax and catch up with the kids. | Space to bond | Experiences that give parents lasting memories and the kids a reason to boast to friends back home. |
| It is a rare occasion, where they can spend time as a family. They look for a holiday experience that they can look back at when the kids are older and moved away. | Guilt compensation, memorability |  |
| They look for activities that will keep kids engaged, and will give kids unique experiences, such as safari or trip to tea factory. | Experiential treat for the kids; relax time for the parents; family time together | Activities and opportunity to explore, learn, discover new experiences, catering to family space. |
| They look for hotels with different facilities for kids and parents, such as a pool, gym, spa, and other activities specifically for the kids. | Entertainment and relaxation; variety of experience | Unique place that will transport them from routine life to new experiences that can be cherished, reminisced, and talked about. |

EXHIBIT 5 CONTINUED

|  |  |  |  |
| --- | --- | --- | --- |
| **Business Travellers** | They need modern amenities that meet international standards, efficient and advanced facilities including high-speed Internet, printing services, and technical assistance for computers. | Connectivity |  |
| They look for hotels with a range of restaurants, clubs, and executive lounges that are open late, where the business traveller can entertain clients. | Entertainment and relaxation |  |
| Returning guests look for and value personalized and individualized service, staff who remember the needs of regular guests, and the offering of free upgrades. | Recognition and personalized service |  |
| Impeccable offerings are important and demanded, including location, hygiene, and service. | Outstanding services and facilities |  |
| The brand name and class of hotels matters because it reflects the image of the business traveller in the eyes of clients. | Image enhancement and star ratings | Enhance and reflect the high-class image they wish to portray to clients |

Source: Brand Finance, reproduced with permission.

Exhibit 6: Need-state mapping for consumer segments

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Source: Brand Finance, reproduced with permission.

Exhibit 7: The brand definition—Inspired Living

We will develop the Cinnamon brand for the new Asia, targeting the emerging Asian middle class who are modern, youthful, and wealthy. Our primary focus will be on **people** seeking to enjoy quality time—**friends** together. **Cinnamon** Hotels will offer modern, iconic, **vibrant** spaces designed around **you**, redefining the best of **contemporary** Sri Lankan culture, entertainment, and hospitality. Our hotels will be the **coolest** places to enjoy life’s best **moments** in the hottest cities and travel destinations. We call it “**Inspired Living.**”

Source: Company documents.

Exhibit 8: local travel agents' Responses to Interviews with intermediaries

|  |  |
| --- | --- |
| * Chaaya was nothing distinctive, just another four-star hotel, same as Amaya but more expensive. * Chaaya is just better quality and newer than Amaya; no other image comes to mind. * There is nothing unique or special about Keells Hotels; they are same as Aitken Spence. * Keells has not done a good job in explaining the differences in their brands; there is nothing more about Cinnamon as compared with Chaaya; they are just names with no unique proposition. * Cinnamon is same as Hilton and Taj but newer; Cinnamon is a corporate hotel. * For tour operators, there is no premium on the brands as yet, so will interchange on price. * Chaaya quality is good but staff unaware with the brand; they do not communicate or deliver. * There is no “wow” in Keells Hotels, except for Chaaya Wild, which is the first in Sri Lanka. * None of Sri Lankan hotels are a known reliable brand. | * Chaaya sounds very local; does not mean anything to tourists. * Most clients do not know and do not care; the name does not register. * Branding is not important to tour groups. * For Indians, Cinnamon is the best quality city hotel; outsiders’ awareness is zero. * Chaaya has not created much top-of-mind awareness and no specific image. * Chaaya has no international awareness; it needs to be promoted. * Talking about the European market, the awareness about the brand is quite low, nearly non-existent. * The hotel does not offer any unique benefit in the market so the price will become very important. * Honestly speaking, for a German-speaking person this name means nothing. * I doubt that customers know anything about the brands. * No one knows about the Keells brand. |

Source: Brand Finance, reproduced with permission.

Exhibit 9: foreign tour operators' Responses to Interviews with intermediaries

|  |  |
| --- | --- |
| * Chaaya stands for light-hearted, reliable, value for money. * Main strength of brand is value. * Chaaya are good four-star hotels, good quality and fair prices. * Chaaya may be a step up from the others, but all hotels in Sri Lanka look the same with one architectural style. * The products from Chaaya are unequal and differing in quality and in target groups. There are little or no common characteristics. * In Europe, the brands are mostly unknown or known as reliable four-star international standard. * Chaaya is more upmarket and Chaaya is more four-star category. * Cinnamon sits as a reliable four-star brand when compared to international chain hotels. * Chaaya is a solid three-star brand with local flavour. * There is no imagination of Keells or the brands under that. * No specific elements stand out as key differentiators. | * The Keells name is valuable, as it means financial stability; Chaaya and Cinnamon are unknown, but have no value to guests. * Keells is a big business, stable, reliable, and a good image brand. * John Keells has invested in hotels and is financially stable. * Keells gives confidence, to know that with the size of the company, they will deliver. * John Keells suggests a degree of stability and reliability. * We have a great working relationship and personal relationship with the Keells group. * Keells Hotels has importance to us, as we are long-standing partner in tourism. |

Source: Brand Finance, reproduced with permission.

Exhibit 10: Customer research on awareness of Cinnamon and Chaaya

|  |  |  |  |
| --- | --- | --- | --- |
| All customer numbers\* (% spread of sample) | 20% | 76% | 29% |
| **Chaaya Hotels and Resorts—Awareness** | | | |
|  | **Business** | **Leisure** | **Diaspora** |
| Aware | 16% | 8% | 63% |
| Non-aware | 84% | 92% | 37% |
| **Cinnamon Hotels and Resorts—Awareness** | | | |
| Aware | 66% | 50% | 92% |
| Non-aware | 33% | 50% | 8% |

Note: \*All customer numbers show spread of sample approached for research.

Source: Brand Finance, reproduced with permission.

Exhibit 11: Perceptions of JOHN KEELLS HOTEL employees and competitors’ employees on various brand architecture scenarios

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Scenario1:**  House of Brands | **Scenario2:**  Cinnamon Endorsed Brand | **Scenario 3:**  Cinnamon Master Brand |
| All John Keells employees | 59% | 33% | 6% |
| John Keells Executives | 62% | 31% | 7% |
| John Keells Non-executives | 58% | 34% | 6% |
| Competitors’ Employees | 50% | 38% | 9% |
|  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Overall** | | **John Keells Executives** | | **John Keells Non-executives** | |
|  | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 | Scenario 1 | Scenario 2 |
| Degree of comfort | 4.39 | 4.02 | 4.38 | 3.65 | 4.39 | 4.11 |
| Salary and remunerations | 3.82 | 3.70 | 3.90 | 3.64 | 3.79 | 3.72 |
| Attracting new and future employees | 4.59 | 4.18 | 4.76 | 3.93 | 4.54 | 4.26 |
| Attracting new local guests to hotel | 4.48 | 4.12 | 4.54 | 4.03 | 4.47 | 4.14 |
| Attracting new foreign guests to hotel | 4.40 | 4.13 | 4.25 | 3.90 | 4.44 | 4.21 |
| Image and corporate recognition | 4.53 | 4.18 | 4.62 | 3.79 | 4.50 | 4.30 |

Note: Scale = 1 to 5, whereless than 4 is poor and more than 4.5 is highly positive

Source: Brand Finance, reproduced with permission.

Exhibit 12: Branded business valuation in three brand architecture scenarios

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Scenario 1:** House of Brands | | | | **Scenario 2:** Cinnamon-Endorsed Brand | |
|  | | Cinnamon | Chaaya | | | Cinnamon | Chaaya |
| Average room rate | | ^8% | ^8% | | | ^8% | ^6% |
| F&B revenue | | ^8% | ^8% | | | ^8% | ^6% |
| Payroll | | (5)% | (5)% | | | — | — |
| A&P expenses | | ^150% | ^150% | | | ^150% | ^150% |
| Total spend over the next 5 years (in LKR million) | | 1,697 | 1,904 | | | 1,697 | 1,904 |
| Annual spending (in LKR million) | | 339 | 381 | | | 339 | 381 |
| Percentage of forecast sales | | 3.1% | 4% | | | 3.1% | 4.1% |
|  |  | | |  |  | |  |
|  | Baseline Case | | | Scenario 1 | Scenario 2 | | Scenario 3 |
| Total branded business value (in million LKR) | 96,640 | | | 114,727 | 110,837 | | 117,865 |
| Percentage increase |  | | | 19% | 15% | | 22% |

Note: ^ = increased by; F&B = food and beverage; A&P = advertising and promotion; LKR = Sri Lankan Rupee; LKR 1 = US$0.008 on July 1, 2012.

Source: Brand Finance, reproduced with permission.

1. LKR = Sri Lankan rupee; LKR1= US$0.008 on July 1, 2012. [↑](#footnote-ref-1)
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13. John O’Neill, Bjorn Hanson, and Anna Mattila, “The Relationship of Sales and Marketing Expenses to Hotel Performance in the United States,” *Cornell Hospitality Quarterly* 49, no. 4 (May 2008): 355–363, accessed April 7, 2018 http://researchgate.net/publication/247784777\_The\_Relationship\_of\_Sales\_and\_Marketing\_Expenses\_to\_Hotel\_Performance\_in\_the\_United\_States, DOI: 10.1177/1938965508324634. [↑](#footnote-ref-13)