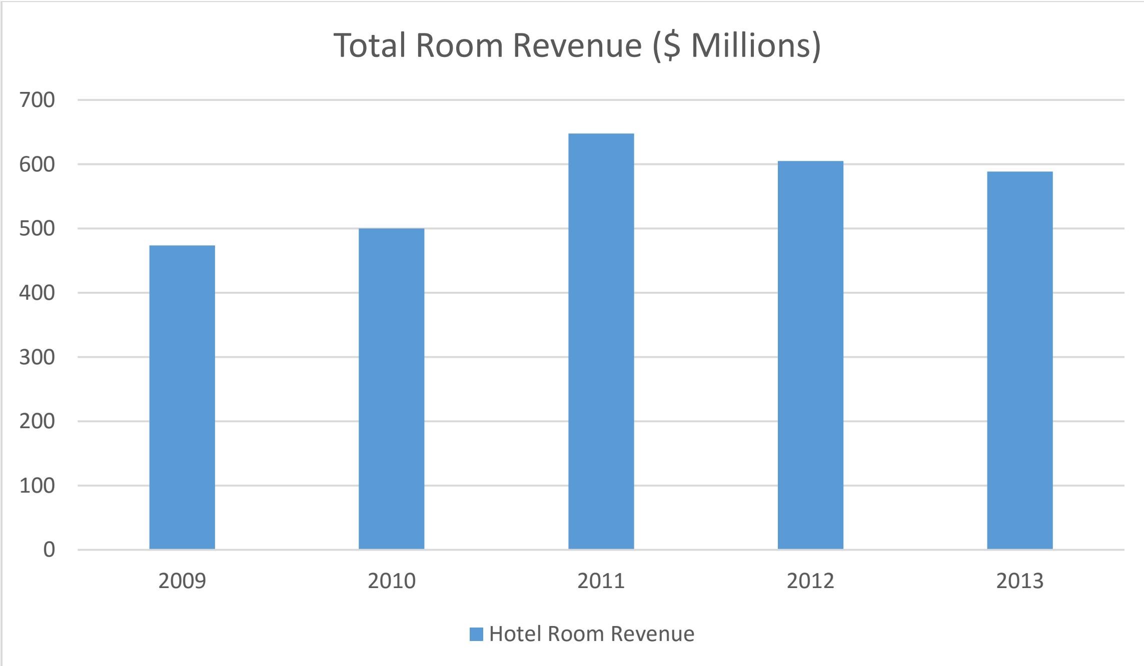
Introduction

The accommodation sector which falls under the tourism industry is one of Kenya's most important. The fact that tourism is among the country's top exports points to the importance of ensuring that both local and foreign guests are as comfortable as possible as they enjoy the Kenyan experience. Hotel accommodation in particular has gone through a number of challenges over the past decade leading up to 2016. The Sarova Hotels are perhaps some of the most easily recognizable and the parent group one of the most successful brands locally and across geographical borders into the larger East Africa. Over the years it has grown to become a dominant player in Kenya's highly competitive tourism industry. This report analyzes the Sarova brand, its history and its performance through the years. It will include details such as the portfolio of products available and the distribution of Sarova, among others. Finally, a conclusion will summarize the key points of the report in its entirety.

Overview

The Sarova Hotels (Sarova hereon) operate in the larger accommodation sector. It is one of the dominant firms in the business, with its main competitors including the Serena Group, the InterContinental, Best Western Premier Nairobi, Fairmont Hotels and Resorts, Hilton and Sankara Nairobi. In order to appreciate the scale of the operation in which Sarova is involved, it is necessary to observe the following statistics as appertain to accommodation in general in Kenya.



Source: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In 2014, tourist arrivals were negatively impacted by a number of factors whose effect resonated to accommodation. Key among these included security concerns and the Ebola virus threat which, prior to its containment, had led a global state of concern. Subsequently, revenue from tourism decreased by 7.3%, from KES94 billion down to KES87.1 billion in 2014. Not only were Sarova's coastal establishments affected, its inland branches also suffered losses owing to the overall decline in the number of tourist arrivals and the wanting state of domestic tourism which could have plugged the gap. The efforts of establishments such as Sarova, Kenya ranked 78th globally in the 2015 Travel & Tourism Competitive Index.

Corporate Analysis

About Sarova

The Sarova chain of hotels was formed in the 1970s by Gurcharan Singh Vohra. He acquired the Ambassadeur Hotel within the Nairobi central business district in 1974 in a partnership with Mr. John Ngata Kariuki, which was Sarova's first operation point. In the following years, Mr. Vohra and Mr. Kariuki would embark on an expansion plan, building the Sarova brand through a series of acquisitions and setup of lodges in Nairobi, at the coast, and in the Rift Valley. The Stanley Hotel which is currently known as Sarova Stanley was one of the most significant purchases due to its prime location and reputation. When the hotel was sold in 1992, Sarova was able to acquire the Panafric Hotel. Through the years, the Sarova Group has expanded from urban locations to game lodges and a coastal branch.

In October 2013, Mr. Vohra passed away in London. His position as chairman of the Group was taken over by Mr. Kariuki upon appointment in 2014. Prior to his death, Mr. Vohra had steered the Sarova brand from humble beginnings to owning 5-star establishments in a number of locations. As of 2016, the Sarova Group has 8 establishments which consist of a mix of hotels and lodges.

Product Portfolio

- Urban Experience

Sarova has in its product range a number of luxury hotels and lodges in the wild. Among the most famous is the Sarova Stanley located at the heart of Nairobi. the hotel itself was constructed in 1902 during the colonial period. Over the years it has hosted a number of internationally renowned personalities, such as Sean Connery, Barbara Streisand, Ava Gardner, Wangari Maathai and Isabella Rossellini. The Stanley was bought up in 1978 by Sarova's founder, the late Gurcharan Vohra and quickly rose to prominence, offering accommodation and restaurant facilities to guests.

Sarova Panafric offers guests accommodation, with 162 rooms located close to the Nairobi central business district. In addition to its suites, the establishment offers a spa experience, conferencing facilities as well as dining for guests who are not seeking accommodation. Previously owned by African Tours & Hotels, the hotel itself was acquired by Sarova in 1992.

- Coastal Accommodation

Sarova Whitesands Beach Resort & Spa is the Group's main coastal attractions. It offers guests a luxurious coastal experience with a private beach, a number of swimming pools, accommodation, a spa and conferencing facilities. The 22-acre property was acquired in 1976 by the late Mr. Vohra and his partner Mr. John Ngata Kariuki, and remains one of the highest ranking coastal hotels in Kenya.

- Game Reserves and Lodges

The Sarova brand is heavily involved in game reserves and game lodges, with a number of establishments under its portfolio. The Sarova Mara Game Camp is one such establishment. It offers guests dining, a spa and a camping experience in the wild, and incorporates cultural influences from the adjoining Maasai villages.

Sarova Salt Lick Game Lodge is yet another premier game destination under the Sarova brand. It offers a range of services and packages, key among which include conferencing facilities, accommodation and dining, a spa, excursions and wedding as well as honeymoon packages. Salt Lick Game Lodge also gives its visitors a view of the Tsavo plains.

Sarova Lion Hill Game Lodge allows visitors to have a view of Lake Nakuru with its renowned flamingo population, experience game viewing and combine this with the luxury of accommodation services. It was opened in 1986, after the completion and launch of the Mara Game Camp. The dining, spa and conferencing facilities found in other branches of the hotel chain are also available.

The Sarova Taita Hills Game Lodge is located 200 kilometers from the island of Mombasa and offers guests the already mentioned facilities, set against the Taita Hills. Additionally, it has its own air strip for guests who may wish to fly in, which adds an air of exclusivity and makes for a premium experience.

Finally, the Sarova Shaba Game Lodge offers guests the same dining, accommodation and spa experience found in other branches of the hotel chain. However, it is unique in its scenic location along the Ewaso Nyiro River, offering visitors excursions through reserves in the Rift Valley. The lodge has the addition of a mini forest, a free form swimming pool and a fish pond.

Brand Distribution

The Sarova brand has nationwide coverage in Kenya, with hotels and resorts in major tourist destinations. It is located in Nairobi (Panafric and Stanley), at the coast (Whitesands), Taita Taveta (Salt Lick Game Lodge and Taita Hills Game Lodge), Nakuru (Sarova Lion Hill Game

Lodge), Sekenani (Mara Game Camp) and Samburu (Sarova Shaba Game Lodge). Its wide geographical distribution allows Sarova to offer its guests a wider variety of scenery and customized packages to suit individual preferences.

Industry Risks

Tastes and Preferences

One of the highest risks facing hotel operators is the dynamic nature of customers' tastes and preferences. The competitive nature of Kenyan accommodation has led to an increase in the options available to both local and foreign visitors. While this has improved the quality of services offered, it has also increased the risk exposure level. Due to this, Sarova is faced with the constant challenge of refining its product portfolio so as to avoid changing tastes and preferences from adversely affecting the brand's revenue stream.

Product Obsolescence

Due to the high end nature of Sarova's operations, the offerings that make up its product portfolio run the risk of obsolescence. Sarova management is tasked with ensuring that the technology, conditions of their rooms and conference facilities and other technical details are up to date so as to effectively compete.

Business Cycles

In the tourism industry, business cycles are pronounced in their effect on business. Based on statistical data, visitor arrivals were noted to be highest in the 2nd and 4th quarters of the year between 2011 and 2014. This points to a period of boom in these quarters and busts in the 1st and

3rd quarters of the year. It is, therefore, necessary that the hotel chain capitalize on the boom periods by offering competitively priced packages and increasing the intensity of its marketing campaigns to make up for the periods of reduced activity.

Technology

Although the accommodation sector was not heavily reliant on technology in the past, it is increasingly faced with the need to incorporate technology in operations. Payment methods, for instance, have shifted from the sole use of physical currency to electronic and mobile payments, which allow for greater flexibility, more convenience and the easy handling of large sums of money. The addition of details such as internet connectivity through cable and Wi-Fi connections also make a significant difference in the numbers of visitors attracted in the contemporary operating environment. High-end corporate clients, for instance, are more likely to seek accommodation in technologically aware and advanced hotels than in those offering basic services.

Country and Sovereign Risk

Political stability makes up country risk exposure. Kenya has been and continues to be politically stable. Deviation from this was experienced in the wake of the 2007 general elections, when the country was involved in 2 months of violent conflict. This had a profound effect on hotel accommodation, which directly impacted Sarova's operations, with foreign governments issuing travel warnings to their citizens. Legislative provisions make up sovereign risk. Legislation on the operation of hotels under the Ministry of Tourism are clear and available to the public. While Sarova has complied with said legislations and regulations, there still exists the risk of amendments in the future, which could affect its operations and profit-making capability. However, with the country heavily reliant on tourism as a major foreign exchange earner and with the government keen on boosting marketing Kenya as a preferred destination, it is unlikely that the country will experience the passing of legislative provisions working against Sarova.

Company Risk

The hotel chain's operational diversity is expressed in its business distribution. Sarova has attempted to mitigate risk through the establishment of several branches. The different locations offer unique features which appeal to a range of visitors, and therefore the brand is better positioned in the event, say, coastal tourism revenues diminish through relying on game lodges or its urban outlets. In addition to this, operational diversity is enhanced through offering several services within the packages, such as dining without accommodation for in-and-out visitors and conference facilities for clients who may not be interested in any other services. This product diversity exposes Sarova to reduced risk.

The regulatory environment within an industry can expose an entity to a degree of added risk, increasing with the number of regulatory authorities. In Kenya, the authorities most involved in tourism regulation are the Ministry of Tourism, the Tourism Regulatory Authority and the Kenya Tourism Federation. Sarova is obligated to incorporate and comply with the provisions of all three authorities in its operations. This can potentially slow down decision-making and implementation in cases where compliance conditions vary significantly.

The Group's financial diversity is best expressed through past acquisitions and transactions. The brand has previously bought out its competitors (such as Whitesands Beach Resort & Spa) while still setting up its own establishments. This points to financial flexibility and diversity. This is further underscored by the countrywide presence, a scale of operation which calls for financial capability to both initiate and maintain at a premium level as the brand has done.

Management Analysis

The analysis of Sarova's management will be gauged on grounds of tolerance to risk as well as the operational streak. Sarova's top-level management is moderately exposed to risk. The decision to establish such a premium chain of hotels on a countrywide level indicates management's risk tolerance. However, an element of risk averseness to counter the risk exposure is brought forth by the Group's product diversity, appeal to both corporate and individual clientele and the offering of unique physical attractions at each branch at which Sarova operates.

It is worth noting that the brand has not been involved in publicized cases of financial crises or misappropriation with revenue-crippling implications. This is despite the broad footprint and relatively long history associated with it, as well as the stiff competition faced in the accommodation sector. therefore, with regard to the operational streak, Sarova's management is well placed.

Financial Risk Analysis

The Sarova Hotels is a privately owned business. As such, financial records are unavailable to the public for scrutiny. However, based on the fact that there have not been reports of financial crunches affecting the brand, it is safe to assume that Sarova is financially stable as a going concern.

Company Analysis

The company analysis will involve details of Sarova's revenue sources and the stability of such sources. The Group's revenue is derived from its hotel chain, which offer in-house services such as accommodation, dining, spas, excursions and conference hosting. Since tourism is one of Kenya's main exports as has been mentioned, the government is heavily invested in promoting it as part of Vision 2030's Social Pillar. Involvement in the tourism industry is therefore a safe bet since government cushioning for the industry in its entirety is guaranteed. It thus follows that Sarova's revenue stream which is dependent on tourism is secure.

Kenya is also touted as one of Africa's increasingly popular conferencing destinations. International organizations frequently hold meetings in the country, with the Kenyatta International Convention Centre being the most preferred venue. With the provision of conference facilities, Sarova places itself strategically in terms of further reinforcing its cash flow.

Conclusion

The accommodation sector in Kenya has grown to become one of the most vibrant and competitive globally. With the Vision 2030 development blueprint in place, the country is set to experience an increase in tourism inflows as well as competition within the industry as a whole. Sarova has established itself as one of the premium service providers in the accommodation scene in the country with a combination of unique offerings and attention to detail. Risk exposure has been mitigated through establishing and acquiring a number of hotels in various geographical locations, which has allowed the group to attract a wider client base. Further strength and dominance within the accommodation sector has been through specialization, thereby allowing Sarova to accumulate experience needed to stay afloat in the face of heightened competition. Private ownership has allowed management to exercise tighter controls over the running of the hotel chain, avoiding the inconveniences faced by publicly traded companies, such as lagged decision-making, unrealistic shareholder expectations driving reckless investment and so on. Sarova is, for the foreseeable future, set to continue on an upward curve performance-wise, and to remain one of Kenya's best premium hotel chains.