



THE TEAM BEHIND THE NEW BRAND FROM
L-R: Dileep Mudadeniya, Chandrika Perera,
Sunimal Senanayake, Rohan Karr, Ajit
Gunewardene & Jayantissa Kehelpannala

JKH's
Indian
Makeover

THE JKH HOTELS TEAM IS BETTING ITS FUTURE ON ATTRACTING YOUNG, MIDDLE CLASS, COSMOPOLITAN INDIANS TO FILL ITS HOTELS. IF THEY SUCCEED, SRI LANKA MAY HAVE AN ICONIC HOTEL BRAND THAT CAN GO UP AGAINST THE WORLD'S BEST. ECHELON HAS A BEHIND THE SCENES LOOK AT WHAT'S DRIVING THE TRANSFORMATION.

BY SHAMINDRA KULAMANNAGE

Luxury hotel management is a challenging business because guests expect more than a lump-free mattress, cable television and air-conditioning. They are increasingly demanding sensitive service, inspiring design, a spectacular location, fusion cuisine, a rejuvenation of the senses and engaging activity. Despite all the trying, the investing in infrastructure and branding, few hotel chains stand out among holidaymakers and business travelers for consistently exceptional travel experiences. “It is an art apart,” declared St. Francis of Assisi almost a thousand years ago. “All saints can do miracles but few of them can keep hotel.”

The lament of business and holiday travelers hasn't changed in the millennium since the simple itinerant St Francis of Assisi's challenge in finding acceptable accommodation.

However, the concept of a great hotel is lofty, fuzzy and sometimes untenable to one guest, while at the same time it may delight another. Expectations are difficult to meet not just because travelers are fickle but because of their varied cultural backgrounds, difference in age, education level and interests. Value for money is also high on the list of most travelers, even rich ones, but even that is hard to define. What is a bare necessity for some is an extravagant waste for someone else. At an expensive hotel, excuses won't be acceptable for burnt out light-bulbs or wilted flowers, but it's far tougher to define what constitutes an inspired experience or uplifting holiday experience.

Hotels up to around a century ago, just provided beds for travelers. The industry has

matured since. Once independent businesses, they are increasingly banding together to ensure consistent standards everywhere they operate. Most significantly they are now an integral part of the holiday travel experience being identified with a destination or becoming significant destinations by themselves.

At John Keells Holdings, the country's largest listed firm and hotel operator, the senior hotel industry team of executives is undertaking a transformation aiming to take their properties far beyond structures that cater to travelers' needs like food and sleep, to something that will take on a life of their own.

“What we are doing is, moving away from looking at the business in a bricks and mortar point of view. It costs millions to build and the most

beautiful hotels can be built, but to make it come to life, that's what really matters to the customer,” explains John Keells Holdings Deputy Chairman Ajit Gunewardene. The most obvious aspect of the change will be the Cinnamon brand emerging as a lifestyle brand, a change from the hotel brand it is. The Chaaya Hotel brand, under which three Maldivian hotels and four Sri Lankan ones operate, will be changed to Cinnamon soon. A domestic airline Cinnamon Air and eco tourism unit Cinnamon Nature Trails will also share the brand.

“You can't be everything to everybody; you have to be very clear about who you are targeting. It's easy when we sit in a group to say that we have to satisfy this customer base, and the other person will say this also and so on, and suddenly you are talking about

CINNAMON FAMILY, THE CHAAYA HOTEL BRAND, UNDER WHICH THREE MALDIVIAN HOTELS AND FOUR SRI LANKAN ONES OPERATE, WILL BE CHANGED TO CINNAMON SOON.



targeting everyone from the teenager to the retiree, from the family to the individual, from the Indian to the European,” Ajit Gunewardene further explained the need to narrow Cinnamon's focus. “Otherwise what you end up with is mediocrity, you end up with absolutely nothing.”

Sri Lanka's tourism is still largely dependent on Western European visitors, whose travel here is seasonal. In most other top Asian tourism destinations, Europeans don't figure as prominently and arrivals are instead dominated by visitors from South East Asia. The Chinese, Indians, and Indonesian visitors, who come from three of the most populace countries in the world, dominate arrivals.

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defer it. "We believe that it's our turn now. We in Asia are in a growth continent. But, South Asia doesn't stand out," Gunewardene gives a glimpse into the strategy of JKH, where hotels is now the biggest and most profitable unit. "Thai hospitality for example has been branded, so what we want to create here is our own version of that. Not in a manner of the old tradition, but creating a modern tradition of a contemporary Sri Lanka."

In the last two years, hotels have emerged as the most profitable of JKH's businesses which also include a container terminal at the Colombo port, supermarkets, consumer foods manufacturing, property development, part ownership of a bank and Insurance. In the December quarter 2012, hotels accounted for 38% of the groups Rs3.1 billion rupee profit. Of the Rs7.6 billion JKH made in the nine months to December 2012, hotels contributed 35%. Before their ascendance in the profitability tables, JKH container terminal was the most profitable unit. During the worst of the times, Maldivian resorts were offsetting losses at Sri Lankan hotels.

Cinnamon has set out to attract and cater to the new Indian middle class because of the proximity to Sri Lanka which makes short, frequent breaks here and in the Maldives viable, due to the market size and similar culture. JKH is particularly interested in young and cosmopolitan Indians who travel with their spouses, partners and friends. Last year 12 million Indians and 90 million Chinese travelled overseas. Both countries have populations topping a billion. "You do the math," Gunewardene smirks at the obvious implication that the number and frequency of Indians travelling overseas will increase similar to the swell from China.

Young Indians already travel to East Asian destinations, further away than is Colombo, to shop and for entertainment. While Colombo can't compete with the likes of Singapore and Kuala Lumpur, new hotels and shopping & entertainment malls in the plans here

When Sri Lanka built its tourism infrastructure in the 1980s, it targeted the long haul Western European market because Asians were poor and did not travel. In the last decade the numbers of Asians who account for 60% of the global population, started travelling. "The world's economic centre of gravity has shifted, it is not shifting, but it has already shifted. Let's face that reality now. It's moved from West

to East and it will remain in the East for the foreseeable future," declares Gunewardene. Europeans largely go on holiday to other countries in the same continent. It's a brave few who put up with the travails of long haul travel, whose numbers are unlikely to grow. The wealth in Europe is also now questionable. Even those who could earlier afford a long haul holiday may not be able to now, or may prefer to

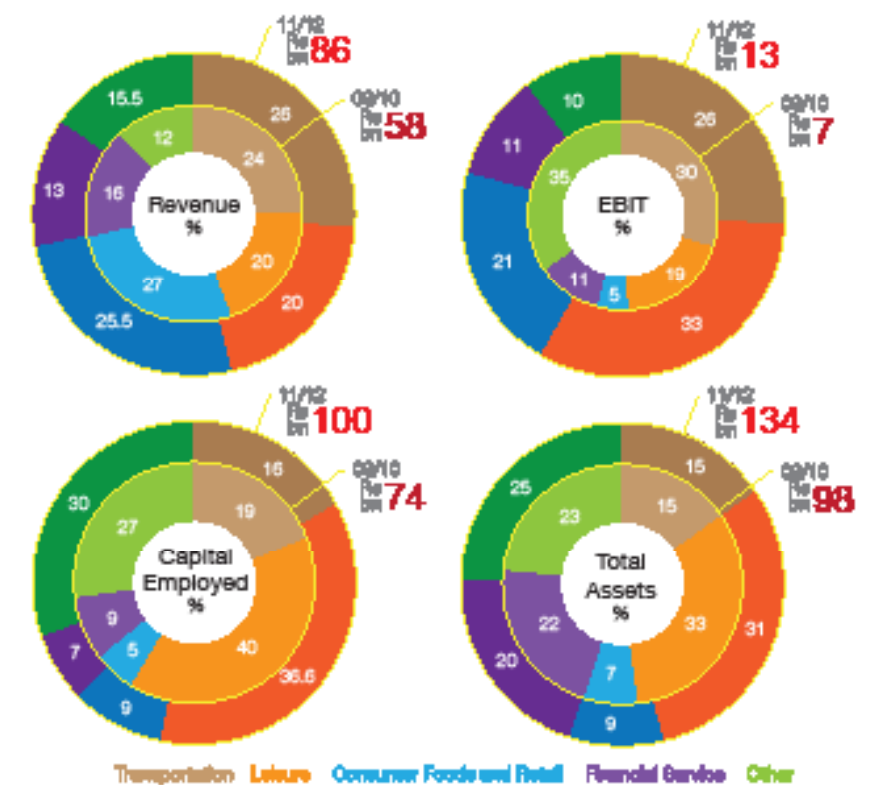
may change the landscape in a few years. JKH itself is planning a major leisure and residential development on its head office property, about the plans for which it is keeping a tight lid. Stock brokers speculate it will include a casino as a joint venture. Mainland Chinese go in their millions to Macau to gamble every year but unfortunately rich Indians don't have ready access to such a location in their backyard.

Despite decades of collective experience in the group that brainstormed the brand positioning, they were still surprised by the outcome, says Gunewardene who has 20 years experience on the JKH board. "It was interesting to see how the minds were pulled away from the traditional beliefs and when it starts getting fine tuned into what you have to deliver, it actually gets quite scary," he confesses.

Rohan Karr who is General Manager at one of the group's top hotels, Colombo's Cinnamon Grand, is the man in charge of delivering the brand promise. He points out that a hospitality industry brand is something a customer experiences, "and right now we are developing that, the standout between Cinnamon hotels versus any other brand." Karr who is also a JKH Senior Vice President, is in charge of rolling out the brand experience across the group's properties, which is expected to get off ground in the next few months.

The group has a clear plan on what they want the Cinnamon brand to achieve. "We've taken the view that we have to essentially create a brand for the new Asia and we will target the emerging Indian middle class. Modern, youthful and wealthy," Gunewardene explains. "The primary focus will be people seeking to enjoy quality time with friends'. So our whole product, people and service delivery will use that as the core. So we will not sell for example, ten days of pure isolation. It doesn't mean that you can't find it at Cinnamon, but we will not sell it."

John Keells group owns or operates 13 hotels including two Colombo city hotels, eight resorts in Sri Lanka and three island resorts in the Maldives. Over the last three years the group



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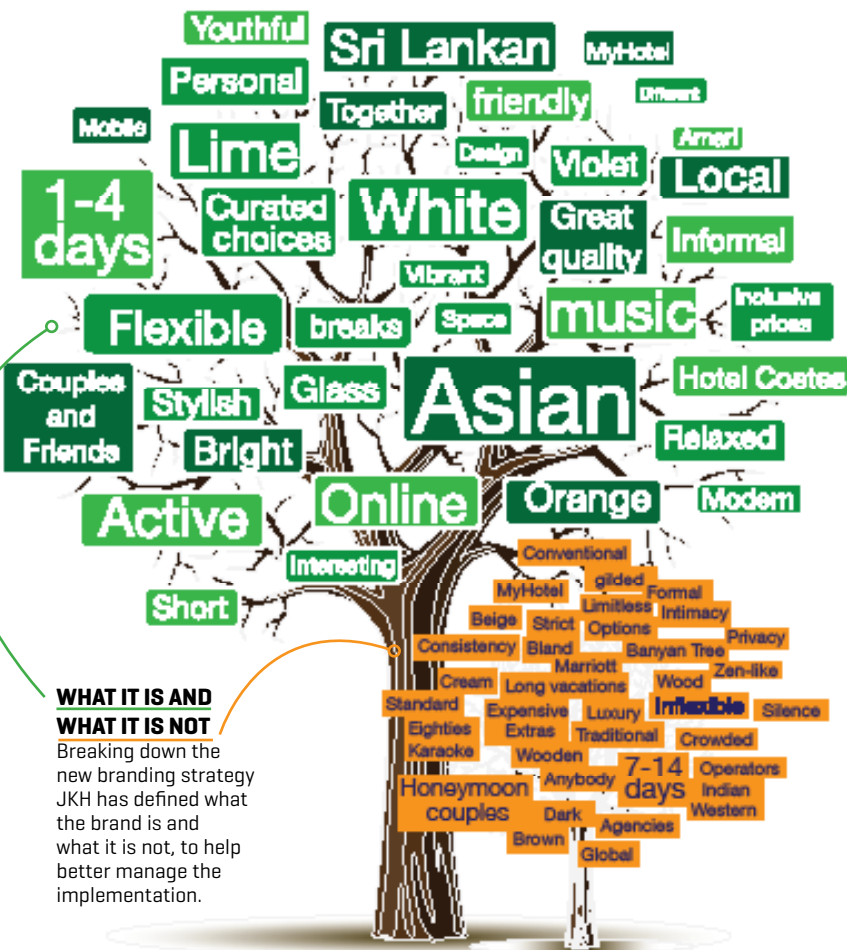


spent Rs7 billion upgrading some of these hotels, to be able to live up to the potential Sri Lanka and the Maldives have.

The firm's Sri Lankan resorts and ones in the Maldives are owned by John Keells Hotels PLC, a firm that's 80% JKH controlled, while the Cinnamon Grand and Cinnamon Lakeside are owned by Asian Hotels and Properties PLC, a listed firm which is 78% JKH owned.

"Brands are not built by saying things, but by doing things," says Dileep Mudadeniya who heads the brand marketing team. "We need to do a lot of relevant things so that people will accept the brand," he says. Mudadeniya's team will use social media, web and mobile platforms to target the young, cosmopolitan and wealthy middle class Indians. Mudadeniya was for more than a decade in the public sector and headed the Tourism Promotion Bureau, before joining JKH as Vice President Brand Marketing.

The tendency to approach hotel investments with a brick and mortar mindset is a natural one. Building hotels is capital intensive and investors tend to focus on health indicators like RevPAR (revenue per average available room), ARR (average room rate) and occupancy level. Fortunes of investors in Sri Lankan hotels turned in 2008 when the war ended. However, overdue upgrades undertaken since, have increased borrowing costs at many



THE MIDDLE INDIAN

John Keells has identified the 'new Indian middle class' as its primary target because it is closer in distance and culture. The strategy also envisages international growth to focus initially on mainland coastal Indian destinations.

properties depressing earnings. JKH also did major refurbishment of Cinnamon Lakeside in Colombo and four resorts.

JKH has internal hurdle rates for all business units of 18% return on equity (ROE) and 15% return on capital employed (ROCE). Its resorts under John Keells Hotels, despite the higher demand in the last couple of years, were underperforming at 8.7 ROE and 8% ROCE in 2012. Asian Hotels where profits topped Rs1.9 billion in the nine

months ending in December 2012, which includes the real estate surrounding Cinnamon Grand, are doing much better.

Rising costs are a challenge. On one hand, customers are becoming price sensitive, while on the other hand, operational costs are escalating, says Chief Financial Officer of the JKH leisure group Chandrika Perera. "We have introduced several cost control measures to mitigate the impact and the rebranding has allowed us to im-

plement cost effective initiatives as an integral part of our branding process," she says.

"The brand should command a disproportionate share of the market in terms of revenue and market share," says Gunewardene, who is reluctant to specify a premium it hopes to command in pricing or percentage for market share. He says in some aspects the group's hotels already command premiums, but the vision is to do so across the broad domination, "otherwise the purpose of this is lost."

Cinnamon is already associated with a premium price among travel partners according to Jayantissa Keshelpannala who heads the eight Sri Lankan resorts. Over the short term there are unlikely to be price escalations at the Sri Lankan resorts. "Communicating that there will be no price implication due to the rebranding, but an enhancement of the experience is another challenge we would need to overcome," he says.

The brand team, assisted by consultants, identified a dozen so called 'touch spots' where guests and potential guests interact with the brand. They cover the first contact to the stay itself, and what happens afterwards. "We have come up with different customer touch points, whether its airport pickup, check-in, bedroom, restaurants, or check-out and for every touch point we will come up with something that stands out, which will be different to any international brand," explains Karr.

With the tourism boom in the last two decades, South East Asian nations like Thailand and Indonesia have spawned a number of world class hotel brands and hundreds of successful stand-alone hotels. The hotel industry claims they have just seconds to impress a guest and right now guests spend those seconds wrestling the luggage and filling out check-in forms. Cinnamon is planning grander welcomes but not by adding noisy Kandyan drummers, lighting oil lamps and elephants in ceremonial regalia, but by

modern interpretations of Lankan culture and a process that eliminates the hassle, allowing guests to settle right in.

Rich travelers are more demanding and have developed sophisticated tastes, and are unlikely to be impressed by the same routine they have already experienced in other classy Asian hotel chains. Partnering with some of the islands top architects and interior designers, JKH has been stamping character at hotels in some of the islands most popular tourism spots. At Trincomalee the architects and designers gave a retro look to the beach front property there, while Hikkaduwa's psychedelic culture was imbued in at Tranz, which got a top to toe makeover. Cinnamon Citadel in Kandy offers a modern interpretation to Sri Lanka's last kingdom.

Definitions of what constitutes luxury, or what experiences make for a good time can be elastic. In the premium segment, customers value brands because they answer an important question as the choice widens: what will the place be like? Rather than defining itself by the structures and ambiance of hotels to draw customers, Cinnamon's brand is attempting to portray itself as a great place to holiday with friends, offering a modern interpretation of Sri Lankan lifestyle.

The brand transformation however still isn't at a point that customers may notice. It's likely to happen in four waves. In the first phase the hotels were upgraded. The second phase was staff training which to a large extent has been done. The training budget went from Rs5 million annually to Rs100 million in each of the last two years, as over 350 staff were sent to some of the world's top hotels to experience their operations first hand. "It just opened their eyes, they saw the world and they all came back and said 'wow! We never knew there was such a world out there'. A lot of these guys had not worked abroad so it was first time for them," Gunewardene says. They got an inside view of housekeeping to kitchen, to front office to general manager's level.

People will take the centre stage,

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as it will be all about creating memorable experiences, says Sunimal Senanayake who heads Human Resources of the JKH Leisure Group and also heads the Maldivian Resorts. "We will continue to invest on developing soft skills to deliver a lifestyle brand based on a new competency framework," he adds. Gunewardene says, staff now know what setting the bar high means. "It scared some people," he adds.

The third phase, conceiving the new brand, is still a work in progress. While its thrust and main elements are now clear, the team is working out how the brand will differentiate at the various touch points. Rohan Karr emphasises the process is research driven and not something pulled out of the air. "We are researching in different markets which we feel will be our future customers, as in India and vari-

ous regions in India, Asia and the Far East. We are looking at their behavior, linking their future behavior and what they spend their time and money on."

"We are not going for a quick fix here or a slight change there, we are going for eight or nine radical changes that stand out rather than just going for slight improvements," explains Rohan Karr who expects the first cut of the new product offering to be deployed by June 2013. Once it's tested the processes will be documented for everybody to read and understand.

"The most challenging is living up

to the brand we create," points out Dileep Mudadeniya.

Destinations out to catch tourists have to decide what kind they are after. This is a challenge that most hotel chains haven't even started to address. Growing wealth has produced new tourists in vast numbers, as more people in developing countries join the middle classes. In India this alteration in income levels accelerated in the last decade and despite the sea of change, no other hotel chain there has zeroed in on the vast opportunity available.

JKH is approaching the challenge radically with practical needs of their guest in the forefront. Unlike most hotel chains their advantage lies in already having zeroed in on their target guests, which makes tailoring a solution that much easier. ■