

Project Shooting Star

Shaping the growth strategy for Premier Inn

MRS Applications of Research Award

BDRC Continental Cris Tarrant

Whitbread Gerard Tempest

TRI Mark Dickens

Summary

Synopsis

Background to Project Shooting Star

Research approach

Research details and key findings

Client application of the findings

Investor reaction to Premier Inn strategy



Summary

- Premier Inn has grown to become the largest hotel chain in the UK
- BDRC Continental collaborated with TRI, a hospitality consultancy, to forecast the future market of opportunity for Premier Inn in the UK in a project commissioned by the Chief Executive of Whitbread, a FTSE 100 company
- The findings demonstrated that the UK market for Premier Inn is far from saturated and that the brand still has strong long term growth prospects
- The project team reported to the CEO and senior management team and the research has underpinned Whitbread's strategic plan for Premier Inn in the UK
- Following Whitbread's presentation of this plan to the investment community, analysts produced a series of 'BUY' notes. Within 3 weeks the Whitbread share price had out-performed its benchmark sub-index by 8%, a margin that has been sustained since
- This is an exemplary case study of the impact of market research at strategic, Boardroom level, with a fabulous ROI
- Project Shooting Star has been fundamental to the strategic direction of Whitbread's largest business unit and to the out-performance of the company, adding £millions to its market capitalisation relative to its industry peers

Synopsis

Background to Project Shooting Star

Whitbread's Premier Inn brand epitomises the 'new wave' of no-frills budget hotels. Launched less than 20 years ago, Premier Inn has grown to become the UK's largest hotel chain.

By the end of 2007 Premier Inn was anticipated to reach 36,000 rooms and so was beginning to approach its previous established UK target of 45,000 rooms.

The CEO of Whitbread approached TRI Hospitality Consulting and BDRC Continental to collaborate on a UK hotel market study to determine the appropriate number of rooms that should be developed under the Premier Inn brand.

Research Approach

BDRC Continental and TRI jointly developed and recommended a research approach that would combine information from various different sources, relating both to the demand and supply sides of the UK hotel market.

The basic premise behind the approach was to obtain an excellent understanding of the current market position and then to forecast how this was anticipated to change.

- desk/web and phone research to establish the total level of serviced accommodation supply in the UK
- re-analysis of existing market research sources to establish total current 'away from home' accommodation demand
- new omnibus research to identify the size of some 50 'reasons for stays away from home' segments
- desk research to forecast the growth potential for each of these segments
- Premier Inn guest survey to establish the brand's penetration of the different travel segments, plus to gauge how many stays are supply generated

Research Details and Outcomes

1. The current UK hotels serviced accommodation market

Due to problems of definition there is no reliable measure of the present size of the serviced accommodation market in the UK.

Shooting Star set out to correct this position.

TRI maintains a database of branded hotels, but they make up less than half of all hotels, plus in addition there is an unknown level of B&B and guesthouse supply.

To provide the required count of serviced accommodation stock a sample frame of all post towns was drawn up. All towns with a population above 10,000 were analysed and a sample of those with population below this level.

A research team at Perspective Research Services, the BDRG Continental data collection facility, then undertook an exhaustive programme of desk/web and phone research.

Existing databases were complemented by local area web searches to identify the total number of qualifying outlets within each exclusive post town area. Individual outlets were then contacted by phone to establish key facts that relate to market capacity: whether still trading, number of rooms, seasonality of opening and published midweek and weekend prices.

This micro-level analysis, never previously attempted, revealed a UK serviced accommodation market including 708,000 hotel bedrooms. This figure is more than 100,000 rooms higher than previous 'top down' estimates.

For the first time this gave Premier Inn an accurate measure of its market share. By the same token, by broadening the brand's competitor set it began to reveal the potential for further growth.

TRI then produced a forecast for the change in supply over the next 10 years, based on comparisons with other more mature hotel markets (US and France), hotel competitor announcements (with account taken of their previous achievements), demand change forecasts (see item 3 below) and a review of supply constraints (eg planning).

2. Current 'away from home' demand

The UKTS (United Kingdom Travel Survey), published by VisitBritain, contains data for total market demand for UK stays away from home.

Although the 'official' figures there are some limitations in the UKTS that make it insufficiently reliable as a single source for demand information, especially with regards to business travel.

Correction factors were applied to convert the UKTS data to a room night basis and the market segment analysis was adjusted in the light of the results of the BDRG Continental British Hotel Guest Survey (which is validated against hotel industry occupancy statistics).

Total domestic away from home demand was calculated at just under 200 million leisure nights (27% share taken by hotels, 5% by budget hotels) and 70 million business nights (81% share taken by hotels, 15% by budget hotels).

Using these total market figures new omnibus research (5 waves across Great Britain and Northern Ireland) explored some 50 specific reasons for stay, which generated a much more detailed analysis by stay purpose and accommodation type used.

This analysis confirmed the success of budget hotels in penetrating certain markets (eg pre/post a flight) but also considerable opportunity in other market segments (eg visits to educational establishments and VFR – visiting friends and relatives, the single biggest segment, in which just a 1% increase in share would represent a massive increase in business – this became known as the ‘China’ market opportunity!)

3. Drivers of demand change

Working with an econometrician, BDRC Continental led an extensive phase of desk research to understand the key drivers of changing demand and their likely impact.

This took account of multiple factors related to the general economy, income and social class composition, demography and family structure, technology, environment and global tourism amongst others.

The impact of these factors on each of the 50 separate stay reason segments were then assessed in turn, allowing forecasts for the 5 and 10 year demand profile for each of these, which were then aggregated into a total market forecast.

Linking the individual stay reason demand forecasts to the current accommodation types used for each one, demonstrated that budget hotels successfully target ‘sweet’ segments such that they will ‘naturally’ out-perform the hotel market as whole by 35% over a 10 year time period.

4. Survey amongst Premier Inn guests

Recognising that some demand is supply generated (the ‘M25/budget airline’ effect) Whitbread needed to know the impact on demand of the opening of a Premier Inn.

An online survey of Premier Inn guests from the last year was conducted, stratified by hotel location type (city centre, roadside, etc), week part and month of stay, with a boost of newly opened properties. Just over 3,000 responses (30% response) were received and the data appropriately weighted.

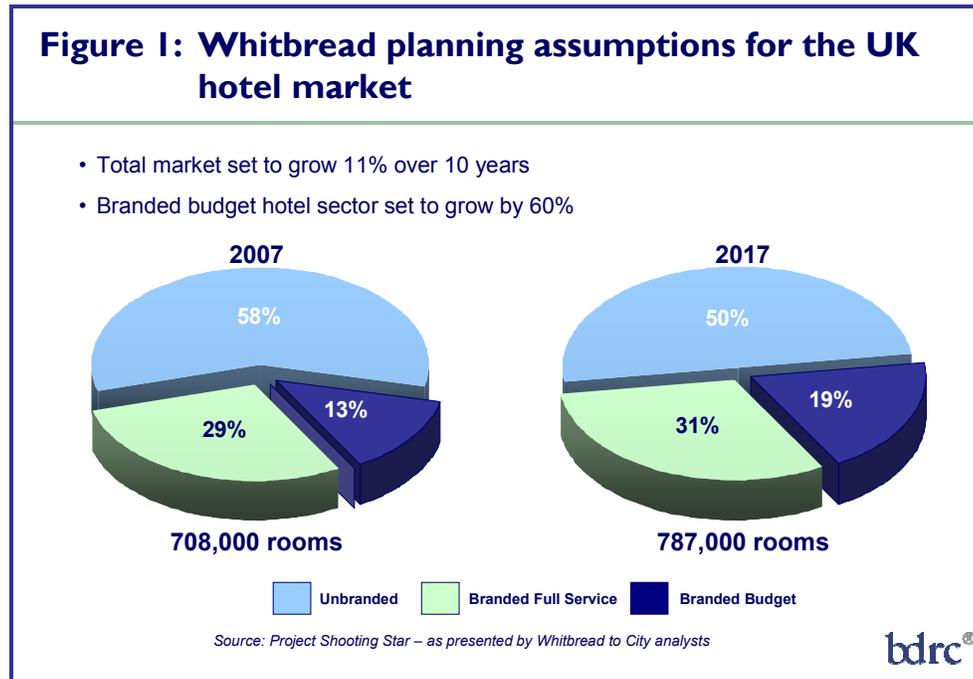
The results showed that:

- 11% of all stays represent ‘new’ demand created by the hotel
- 9% of demand is captured from guesthouses, pubs and B&Bs, rather than traditional hotels

This information was then built into the demand forecasts.

Client Application of the Findings

BDRC Continental and TRI reported the findings back to Whitbread by means of a detailed report and a series of presentations and meetings, nearly all attended by the Whitbread CEO.

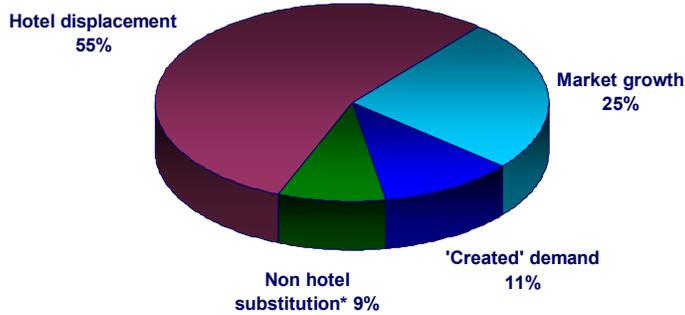


Whitbread has consequently re-worked its strategic plan for Premier Inn in the UK (its largest business unit, delivering 71% of the company's 2007-08 profit), as follows:

- upped its target to 55,000 rooms within 5 years, with details as to where the demand for these rooms will come from
- prepared a region by region analysis to pinpoint specific growth locations
- re-cast the Premier Inn category from budget hotels (in which it has a 40% share) to all hotels (in which budget hotels, in total, have only a 13% share)

Figure 2: Premier Inn sources of demand for the new supply

Based on the indicated potential for development of Premier Inn, this is where the demand will come from



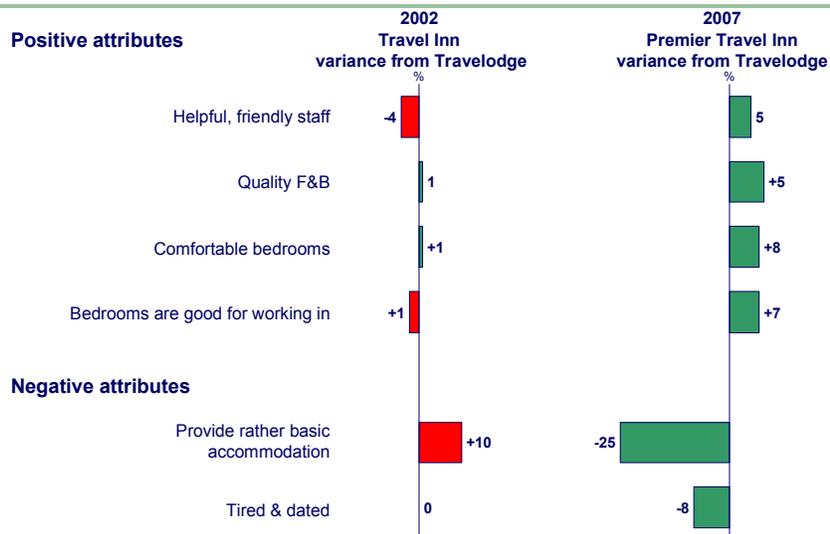
* Bed & breakfast, visiting friends and relatives, etc.

Source: Project Shooting Star – as presented by Whitbread to City analysts



In addition Whitbread used BDRC Continental Hotel Guest Survey results to demonstrate that Premier Inn has distanced itself from rival Travelodge, so is well placed to obtain a higher rate in the market.

Figure 3: Premier Inn Distancing Itself From Travelodge



Source: Project Shooting Star – as presented by Whitbread to City analysts

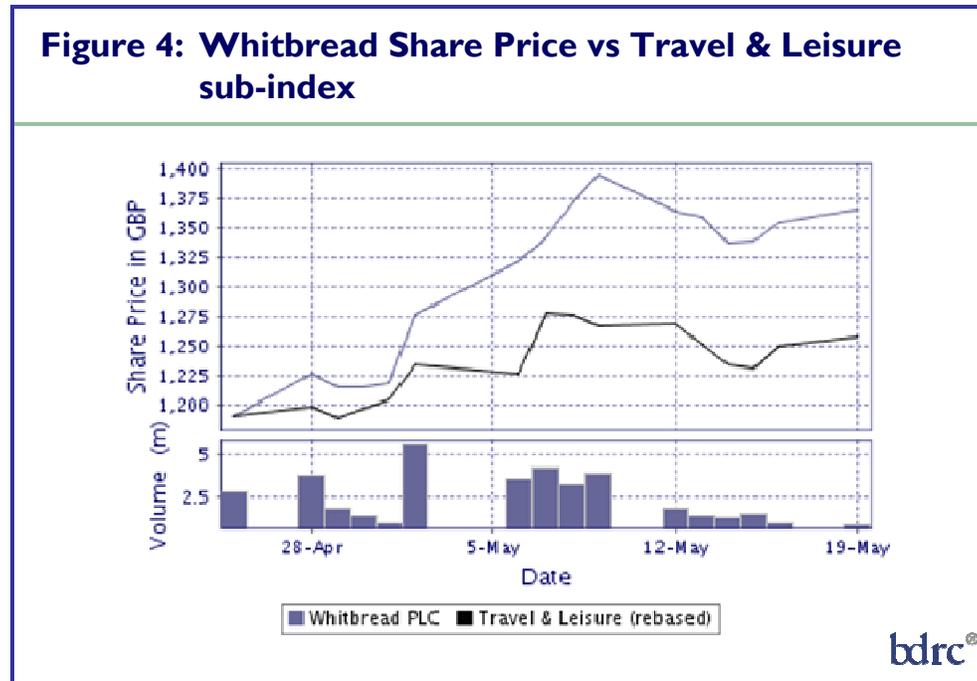


The results of Project Shooting Star have enabled Whitbread to present a compelling forward picture for its UK Premier Inn business.

Investment Community Response

Whitbread's revised plans for Premier Inn were announced to the investment community at the end of April 2008 with a series of analyst briefings.

This has led to a plethora of 'BUY' notes for Whitbread stock, eg from Deutsche Bank and Morgan Stanley. As well as commenting on good current trading these have highlighted the growth potential for Premier Inn, as revealed by Project Shooting Star.



Whitbread has enjoyed a consequent positive re-rating of its shares. From the date before the investor announcement to 3 weeks afterwards, Whitbread shares outperformed the FTSE Travel & Leisure index by 8% and up to the time of this submission have continued to maintain this margin.

This represents a re-valuation of Whitbread worth £millions to the share capitalisation of the company.

The value of this project

This is an exemplary case study of the contribution that market research can make at the strategic, Boardroom level in a major company.

In the words of Alan Parker, Chief Executive of Whitbread,

“Project Shooting Star has provided Whitbread with the market foresight to enable it to plan with confidence for the further expansion of Premier Inn in the UK”

The collaborative approach used demonstrates the value of harnessing various skill sets and of integrating different information sources into a strong business case.

The findings have enabled the client to make a compelling case to the investment community that has resulted in tens of £millions being added to the relative value of the company.

This research has delivered a fabulous ROI, given the re-rating of Whitbread's share price following the presentation of the new strategic plan for Premier Inn.