CASE 17

LUX*: Staging a Service Revolution in a Resort Chain

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ABSTRACT

LUX* was a successful hospitality group operating in the Indian Ocean as well as other locations. In its previous incarnation, the company suffered from poor financial performance, poor service quality and a weak brand. A change in the leadership of the company led the group through a transformation, which showed positive results within 12 months. This case study describes a service revolution that lead to rapid improvements in service culture and guest experience, which in turn lead to sustained financial improvements on a quarter-on-quarter basis.

INTRODUCTION

With its headquarters in Mauritius, the LUX* hospitality group operated a portfolio of eight resorts and a private island in the Indian Ocean (*Exhibit 1*). The brand promised guests a celebration of life through its new value proposition — luxury resort hospitality that is Lighter.Brighter.

What is the Lighter.Brighter hospitality? Established luxury hotels have come to be associated with stiff upper-lipped service and stuffy opulence. Lighter hospitality meant breaking away from these to offer a more effervescent experience without compromising on its upscale sensibilities. At the same time, LUX* wanted to brighten up guest experiences. For example, instead of having high prices for items from the mini-bar, LUX* wanted to encourage guests to enjoy themselves and just take from it what they fancy. To encourage this, LUX* lowered the prices of items in the mini-bar significantly. By being smarter in the way LUX* operated, both guests and business benefited.

Although LUX* was launched only four years ago, the group's resorts had been doing exceptionally well. Within a short span of time, LUX* successfully transformed its service culture. The group had seen 16 consecutive quarter-on-quarter improvements in its financial performance. The group's resorts also enjoyed a higher occupancy rate than the industry average in the destinations they operated in (measured quarterly by the Market Penetration Index, which compares the hotel's occupancy against its competitive set). The group's financial performance was mirrored by winning multiple accolades for service excellence, including "Indian Ocean Leading Hotel" for LUX* Maldives from World Travel Awards, "Best Resort Hotel Mauritius" for LUX* Belle Mare from International Hospitality Awards, and "Reunion Island's Leading Hotel" for LUX* Ile de la Réunion from World Travel Awards.

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All dollar amounts referred to in the text are in US Dollars unless otherwise indicated. The exchange rate used for all currency conversions is MUR100 to USD2.845.

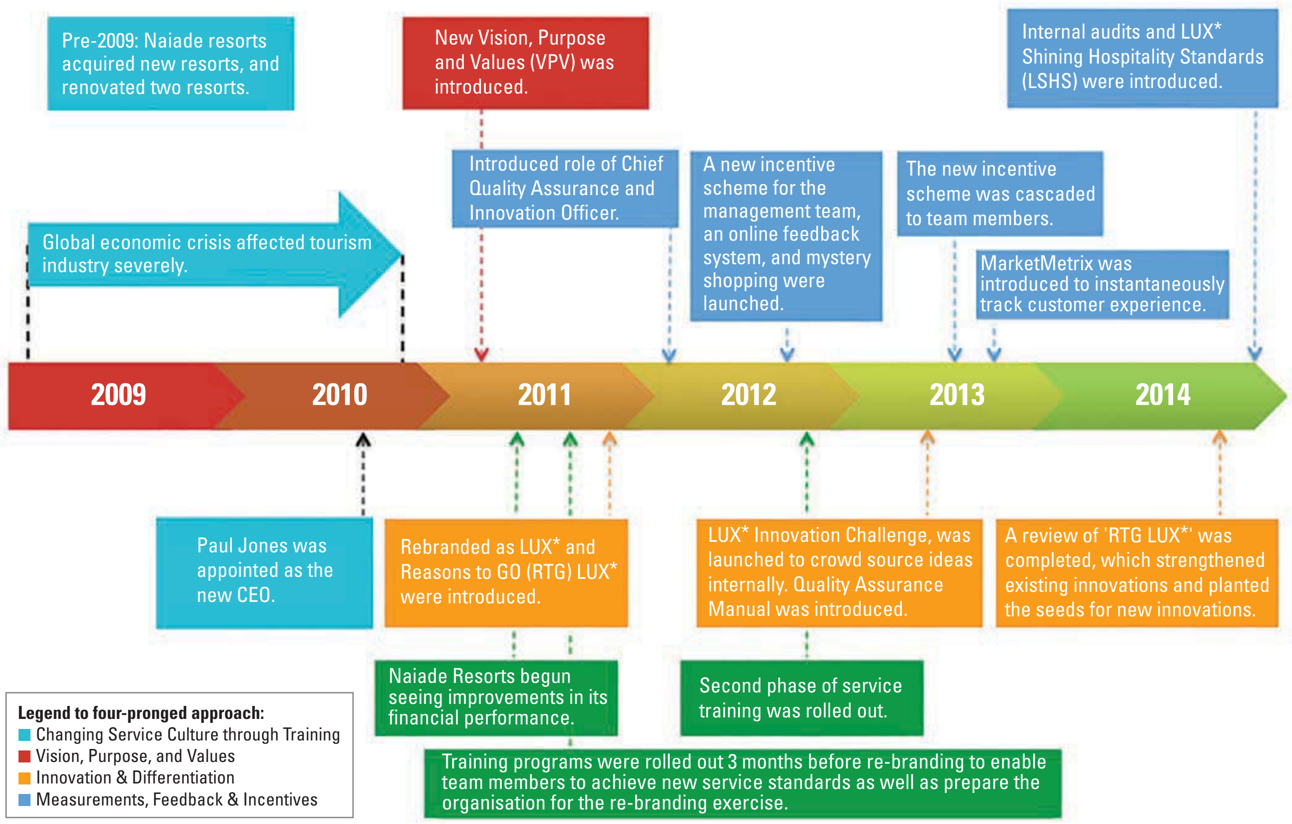
LUX* TRANSFORMATION

The very first step in Naiade's transformation can be traced back to the second half of 2010. In dire straits then, the board of directors of Naiade Resorts made changes to the company's leadership, and appointed Paul Jones as CEO in October 2010.

Under Jones's leadership, many changes were introduced to the organization within the first 12 months of his appointment. They were aimed at rapidly improving the profitability of the business and creating a world-class brand so that it could expand internationally. However, this marked a difficult transitional period for Naiade Resorts, which was in financial doldrums. Every month, Naiade Resorts struggled to pay salaries. Some employees even wondered if the changes would sink the company further.

Observing how dire the situation was, Jones commented, "The numbers pre-2010 were alarming and the company was sinking fast and would have been bankrupt had it not been for the capital injection from shareholders. In addition, the properties were in poor shape and staff morale was exceedingly low".

Together with his team, Jones focused transformation efforts on four main areas through an integrated and congruent strategy (*Exhibit 4*). First, he looked into the company's core strategy as well as company values. Naiade Resorts' business model was shifted from one of owning hotels to managing them, following an asset-light strategy. Amongst others, the new model would reduce the company's cash outlay, as owning hotels can be highly capital extensive. For example, buying a modest-sized resort in Mauritius is estimated to cost upwards of 15 million. The new business model would reduce the company's risk exposure and allow it to expand at a faster rate. This shift provided a critical impetus for the company to concentrate on improving its service delivery.



Note: LUX's service revolution can be encapsulated by a four-pronged approach. After a change of leadership, Jones and his team swiftly introduced important changes in multiple areas that proved to be critical in turning the company around. The company has since continued to build on this momentum to continually improve.*

Exhibit 4 LUX*'s Four-Pronged Approach

In Mauritius, an incentive scheme was extended to all Team Members. Under this scheme, the performance of individual hotels was linked to rewards for 2,000 frontline employees in Mauritius. By 2015, team members were given targets for EBITDA, TripAdvisor ratings, as well as MarketMetrix score (a measure of guest satisfaction). A bonus of 8% of the team member's basic monthly salary was paid when the KPIs were met. Paid out on a monthly basis, the bonus served as a tangible incentive to further motivate frontline staff to meet the company's goals.

While these tools served LUX* well, the group's ambitions have in a short few years evolved from turning around the company to becoming a leading international player. This also meant that some of its management tools had to evolve.

One tool that evolved was how LUX* measured customer satisfaction. In 2013, the LUX*'s online system evolved from a fairly basic system to one that is much more sophisticated. By partnering with MarketMetrix, LUX* was able to track customer experience almost instantaneously on a daily basis. Aspects of customer experience that were tracked included Check In and Check Out, Room, Food and Beverage, as well as Facilities and Amenities. Customer feedback was also taken so seriously that the CEO received metrics on customer satisfaction on his smart phone on a daily basis. LUX*'s partnership with MarketMetrix allowed it to not just benchmark itself across its resorts but also with its key competitors. This strong focus on customer satisfaction helped the company to better monitor and track its performance on a resort by resort basis, and within resorts, on a department by department level.

More recently, LUX* fine-tuned its internal quality standards and developed LUX* Shining Hospitality Standards (LSHS), which served as LUX*'s brand operational standards. In comparison to the LUX* Quality assurance manual, LSHS represented a shift from benchmarking against competitors to delivering service that was distinctively LUX*. For example, LSHS provided guidance to employees in terms of grooming and how they should interact with guests. A company-wide standard, LSHS was adapted to each resort in the form of standard operating procedures. Along with these changes in standards, LUX* also changed the way they tracked these standards such as using internal audits in place of mystery shopping.

FUTURE PLANS

Having successfully revolutionized its service through a four-pronged approach, LUX* was in 2015 in a much better position to implement its asset-light strategy. It already had signed a number of long-term management agreement for upcoming hotels in the Maldives and China.

By the end of 2016, LUX* expected to have close to a-third of its portfolio being owned by third-parties but managed by LUX*. Finally, LUX* entered into a franchise agreement to open Café LUX*, a RTG LUX* concept, outside the hotel. With its strong service culture, LUX* aimed to become more of a global company with a bigger footprint.

Study Questions

1. What were the main factors that contributed to LUX* Resort's successful service revolution?
2. What key challenges do you see in what LUX* did in carrying out its transformation? How were they addressed and what else could have been done?
3. What next steps do you think LUX* should take to cement its strong service culture, continue service innovation, and maintain its high profitability?

Click to view video interviews with Paul Jones, CEO of LUX* Resorts & Hotels:

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