Harvard Business Review

HBR Case Study: Time for a Unified Campaign?

by **Marco Bertini** and **John T. Gourville**

HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "**Barceló Hotels and Resorts**" (case no. 511108), by John T. Gourville and Marco Bertini. It is available at hbr.org.

"Welcome, welcome." Beatriz Soto greeted Fernando Ruiz, the COO of Alegre Hotels, as he stepped out of his taxi into the Cozumel sunshine. He smiled, extended a hand, and kissed her on both cheeks. "Palma Cay's first month," he said. "How is it going?"

"Operationally, very smoothly," Beatriz replied. They walked into the luxurious lobby. "A few electrical issues in the spa and conference center, but nothing to worry about."

Fernando's eyes moved quickly from the marble floors to the skylights, the mahogany reception desk, and the glass doors framing the infinity pool and the ocean beyond. In one corner of the lobby, two women sat under a potted palm, sipping sangria while children played at their feet. In another, a concierge watched a scuba-diving video with a man and his teenage son. The hotel looked fabulous—five-star, just as they'd intended.

"Have the bookings picked up?" Fernando asked.

"Honestly, not much," Beatriz said. "Can we step into my office to talk before we do the walk-around?"

She led him down a long corridor to a door marked "Hotel Manager." Beyond it was a small room with a partial view of the elaborate garden. Beatriz picked up some papers from her desk—a memorandum on Palma Cay letterhead clipped to several Excel spreadsheets.

"I know this hotel made a lot of sense in 2007, when Alegre broke ground," she began. "And I think it still makes sense. The economy's got to come back to full strength sometime. But our bookings for the high season are looking terrible. I'll be lucky to fill half our 1,000 rooms."

Fernando knew that bookings had been slow, but he'd hoped for better news. Beatriz went on: "You know my track record. I've handled tough times before. Palma Cay is Alegre's new flagship, and I think I can make it work by lowering prices for the key travel agencies, tour operators, and online portals. But I can't do that within my current budget. I need help."

"What sort of help?" he said.

"Give me $700,000 from corporate funds. I'll put together a plan to get this hotel on track."

"Beatriz, you know how Alegre works. You're responsible for your own P&L, just like all the other hotel managers, and that includes promotional spending of any kind. In fact, we barely have a marketing budget at the corporate level. How could I justify giving what little there is to one hotel when plenty of others are struggling, too? Mexico City, Cancún, Caracas—bookings are down everywhere. Pretty soon everyone would be asking for special funds."

"But my capacity is double that of Alegre's next-largest hotel. And this is our flagship property now. Our newest luxury resort. I can just see the headlines if Palma Cay is empty the first winter: 'Alegre's Latest Gamble Falls Flat.' We might never recover."

"So make sure that doesn't happen."

"I want to—but I need help. Please just look at my proposal."

"Of course I'll consider it." He was tempted to tell her about the idea he'd been mulling over—a corporate-level promotional campaign—but thought better of it. "Now let's see the conference center. What were the electrical issues?"

Distinct Personalities

Fernando sat in the airport thinking about Palma Cay. After three years and $500 million in development costs, it was a gorgeous hotel, the best designed and best located in the company's portfolio. Its success was critical to Alegre's health—his CEO, Carmen Fiera, had made that clear. But the tour operators and travel agencies that Alegre had always relied on to fill rooms were having trouble selling any resorts, and bookings were particularly slow for Palma Cay.

Beatriz clearly believed she could fix the problem. Fernando trusted her intuition and thought that her plan had merit. Since 2001, when she'd arrived at the company, she'd turned around two hotels. The first was an aging beach property that had struggled during the winter months. Beatriz had noticed how many amateur and professional athletes were doing off-season training in the area and decided to court them by investing what money she had in a state-of-the-art fitness center. Now the hotel was nearly always fully booked. The second was a city hotel that she'd transformed from fusty to hip simply by hiring an inexpensive decorator to make it over, opening a new restaurant that attracted a night and weekend crowd, and targeting youth-friendly travel operators.

But Fernando couldn't help thinking that the slow start at Palma Cay was symptomatic of a much broader problem—one that would require a bigger solution. Alegre was the third-largest hotel group in Latin America, with 206 popular, high-end properties in cities and resort towns from the Caribbean to Argentina. Yet few travelers thought of their hotel as an "Alegre hotel," as they might think of a Marriott or a Four Seasons, because the company had always preferred to emphasize the distinct personalities of its properties, each of which was tailored to its locale. Operations were highly decentralized: Each hotel retained its own identity, managed its own business with full profit-and-loss responsibility, ran its own incentive programs, and handled its relationships with key intermediaries. The benefit was diversity (if the family-friendly beach properties weren't performing, the boutique urban hotels or inland golf retreats could pick up the slack) and flexibility (local staffs could tweak operations to suit their circumstances). The downside was that guests might return again and again to one hotel yet be completely unaware of the larger Alegre family. The company had no way to stimulate demand across its portfolio; it didn't even have a loyalty rewards program, which was now standard practice in the industry. In a year when forecasters were predicting a decline of 20% to 30% in hotel occupancy, that was a big competitive disadvantage.

Since he'd been recruited to the company, in 2008, Fernando had thought about changing this. Now, given the dire situation at Palma Cay, he might have the ammunition to do it. The executive committee would probably agree to invest in a local price promotion to boost the hotel's fortunes. But should the company instead spend that money on a broader, more daring initiative? Should it take this as an opportunity to launch its first-ever portfolio-wide campaign directed at consumers—a branded price promotion paid for with corporate resources and contributions from all the individual hotels?

The ringtone of his BlackBerry interrupted his train of thought. It was Hans Edelman, a Dutchman who managed Alegre's most profitable hotel, in Buenos Aires. "Hello, Hans," he said.

"Fernando, hi. I just wanted to confirm that you're still planning to visit next week. One of our regular guests has requested the suite you usually stay in. May I move you to the fifth floor instead?"

"Of course, of course."

"Excellent. While I have you on the phone, may I speak to you about something else?"

"Sure."

"I understand that Palma Cay has requested some extra promotional funds and that you're considering it."

Hans had worked for 12 years with Beatriz's current deputy, mentoring him up through the ranks at Alegre, and the two men were still close. Fernando assumed that was how the information had traveled so quickly. "Yes," he said.

"I also understand that you're considering a corporate campaign with significant discounts for guests."

This time the source must have been Ana Montoya, the company's chief marketing officer. Fernando had briefly floated the idea past her the previous week, just before she went to Buenos Aires. "Again, yes," he said.

"With all due respect, I would be unhappy with either option, and I know many other managers would also feel that way. We're all dealing with the same economy, and some of us are faring better than others. You'd be taking from the rich hotels to give to the poor ones. And you can't advertise an upscale urban hotel like mine in the same breath as the family resorts, with their children's pools and gourmet pizza parties. It would completely undermine what we've created here."

Fernando had always appreciated Hans's direct style, but this was pushing it. "Hans, it's not your decision."

"Of course it isn't. I apologize. But all the top hotel managers at Alegre chose to work here because of the autonomy—the opportunity to manage a unique property and make it their own. That's why we stay." Hans had rejected an offer from a major global hotel chain the previous month, as Fernando knew. "I thought you'd want that input."

"I appreciate that, Hans. I'll take it under advisement. And I'll see you next week."

"Yes, sir."

Fernando was annoyed—not with Hans (his reaction was to be expected) but with Ana, for mentioning the possibility of a corporate promotion before the idea was fully formed. He was about to call her when he heard the boarding announcement for his flight. By the time he was settled in his seat, he had calmed down. He would wait to talk to her in person.

An Uphill Battle

Ana knocked softly on Fernando's office door. "You wanted to see me?"

"Yes, come in," he said. "I had an interesting call from Hans yesterday."

Ana grimaced. "I'm sorry. He was talking about his competitors in Argentina, and I very casually mentioned some of our ideas for boosting demand. That was it, and we moved on. But I could tell he was filing it away. It was my mistake."

"We're at such an early stage with this, Ana, and it would be a major change for the company. The directors are big on keeping operations decentralized; they all emphasize the 'local approach' and how it has gotten us where we are today. They're still talking about Beatriz's fitness center! Getting everyone to buy into a corporate campaign, especially one targeting guests directly, would be an uphill battle, and we can't start it with rumors flying and our star managers assuming the worst. We have to develop a clear plan and get everyone on board—Hans, Beatriz, everyone."

"You're right, of course. How was Palma Cay?"

"The hotel looks great, but peak-season bookings are terrible. Beatriz wants more money for a promotion."

"Actually, I just got a similar request from Peter in Cancún."

"How much does he want?"

"$200,000."

Fernando sighed. "It's only a matter of time before others start to call. Well, we can probably increase bookings with local interventions like that, but what about something bigger and better coordinated? Why aren't we sharing data, establishing best practices, launching customer loyalty initiatives, getting our brand recognized? What about long-term strategy? This economy is a companywide problem, not a hotel-specific one."

As his voice rose, Ana moved to shut the door. "Believe me, I want all that, too," she said. "I've spent five years tinkering with brochures and uniforms. But I'm really not sure we can find a one-size-fits-all message that would work. I mean, we're in 21 countries. We have city, beach, golf, and mountain hotels. Spas, conference centers, pools, casinos. Families, couples, singles, businesspeople. Historical, modern. Old, young. How do you craft one message around all that? And how would a single price promotion work when the hotels are used to setting their own rates and discounts? Would it apply to everyone?"

"I agree that it would be difficult," Fernando said. "But it may be worth the risk. We could sort out the logistics on price; I think we would want to include every hotel and focus on early booking. And the message could be something around luxury, or personalization, or... " He trailed off, thinking about all the taglines he'd dreamed up over the past few months and then discarded as too narrow, or too bland, or too predictable.

"Have you mentioned the idea to Carmen?"

"Not yet. But she's back from New York tomorrow. And she'll want to know how we're going to hit our numbers this year."

"At Palma Cay or companywide?"

"Both."

What Would You Do? Some advice from the HBR.org community (Located at the end of this article)

HBR Case Commentary
Which promotional strategy should Fernando pursue?

Two commentators offer expert advice

Raúl González is the CEO of Barceló Hotels & Resorts for Europe, the Middle East, and Africa.
It's understandable that Fernando desires a companywide campaign, but as he says, Alegre may not be ready. He should begin by allowing Beatriz to build a campaign for Palma Cay, which could then be used by other Alegre hotels in the same class. He could grant her request for funding on the condition that he work closely with her to develop a promotion and messaging that are relevant to other Alegre properties.

Of course, Fernando will face resistance from hotel managers who believe that Beatriz is getting special treatment in Alegre's otherwise decentralized structure. He needs to make it clear that this is not a precedent for bailing out hotels when their bookings are low. Rather, it is an investment in the brand: Palma Cay's campaign would benefit the entire portfolio. Similar appeals from other hotels should be considered case by case and approved only if they would provide broader benefits for the Alegre brand.

In building the campaign, Fernando and Beatriz need to address two underlying issues: how to alleviate the pressure on inventory management caused by last-minute reservations and how to break Alegre's dependence on intermediaries. These are common problems for hotel groups across Europe, including Barceló Hotels & Resorts.

To tackle the former, I would recommend that Alegre follow the airline industry model: Incentivize customers to book earlier by offering lower prices in return for advance purchase and prepayment, with fees for cancellations. We've tried this at several of our hotels with great success.

Dependence on intermediaries must be handled more delicately, because Alegre needs to maintain the strong relationships with tour operators, travel agencies, and online portals that have long generated the bulk of its bookings. But Fernando must figure out how to communicate directly with customers and take control of his brand. A campaign at Palma Cay would give him an opportunity to begin positioning Alegre with a target market while increasing bookings at its flagship.

This case study is based on Barceló's experience in Spain. In 2008, like many other hotel groups, we faced declining occupancy. Up until that time all marketing and promotional activities had been financed and managed at the hotel level. Managers in the region turned to headquarters for assistance in combating the crisis and increasing bookings. We used the opportunity to develop broader messaging that was relevant to all our hotels, but we focused on consumers in Spain.

Many people in the company feared that no one-size-fits-all campaign could possibly meet the needs and individual personality of every property, so we chose a tagline for a regional communications campaign that highlights the diversity of our offerings: "More than you can imagine." The tagline was used on the corporate website and in brochures, directories, and a promotional video.

Fernando could take this approach and use Palma Cay as a starting point to refine and even test Alegre's message before pushing a companywide campaign.

Kevin Lane Keller is the E.B. Osborn Professor of Marketing at Dartmouth's Tuck School of Business.
Fernando should follow his instincts and creatively leverage the Alegre brand to benefit the entire portfolio. This collection of hotels needs to be greater than the sum of its parts. He should find ways to help consumers make appropriate connections between the hotels and increase the likelihood that they'll visit other Alegre properties.

However, it will be difficult to implement any companywide campaign if it's unclear what Alegre stands for as a brand. What is it that makes each property an Alegre hotel? Are all the hotels of the same quality? Do they offer the same experience? What is the thread that holds them together? Fernando's starting point should be an understanding of what it means from the customer's perspective to stay at an Alegre hotel.

That distinguishing quality then needs to be articulated to consumers, probably through a soft endorsement rather than a corporate brand. Because Alegre properties, unlike Hiltons and Marriotts, don't carry the company name, they have to establish the link for consumers. Each hotel could retain its unique identity but be labeled or endorsed as "an Alegre property," along the lines of what Starwood has done with its many brands and The Leading Hotels of the World has done more explicitly with its singular properties. To allay Hans's fears about diluting the brand, Fernando might consider developing two or three subbrand concepts to help logically categorize the hotels, such as "urban upscale" and "luxury family resort."

With a corporate endorsement, Alegre could more effectively cross-sell the hotels in its portfolio. For example, a loyalty program that gives customers the opportunity to earn travel rewards at any Alegre property might well increase reservations across the board.

Fernando should then devise a promotional campaign that individual hotels could adapt. It should not be heavy-handed. In fact, he should be careful to preserve the autonomy of the hotel managers while giving them the tools they need to effectively market their properties. If they were armed with a broader promotional message about the benefits of the Alegre brand, they could focus on explaining to consumers as well as travel agents and tour operators how their particular hotels deliver those benefits.

Saying no to Beatriz's request might be difficult for Fernando, especially if it meant accepting low bookings for the flagship in its first winter. But the sort of bottom-up branding approach that Beatriz advocates is rarely successful. Fernando could end up spending a lot of corporate money feeding individual budgets and miss the opportunity to build the reputation of Alegre's entire portfolio. He will get much greater bang for his buck if he smartly invests in the corporate brand.

What Would You Do? Some advice from the HBR.org community

Staying close to each property's customers has obvious advantages. But a corporate brand is needed as well. Best Western's present tagline is "The World's Largest Hotel Family." It wants to be known not as a chain but as a collection of independent properties with similar values and standards. That model could be emulated.

Joseph E. Buhler, *senior analyst, PhoCusWright*

Alegre has a wide range of resorts and an equally diverse customer base, with different needs, tastes, and budgets. Find a promotional campaign that shows global presence but preserves the strategy of niche identity and pricing. Increase marketing by location. Work with travel agencies to push the unique experience. Don't treat the client like he's part of a herd.

Julio Garcia, *CEO, Victoria Travel*

An overarching campaign wouldn't adequately stimulate demand across Alegre's range of customers, so Fernando should continue to let individual hotels drive promotional decisions. That said, a corporate branding strategy would allow the company to share insights across properties and develop targeted cross-selling messages, while guests accumulated points in a loyalty-rewards program.

Denise Lee Yohn, *branding consultant, Denise Lee Yohn, Inc.*

Alegre should build a brand around "wholesome vacations" to suit all needs—young or old, luxurious or budget-friendly, adventure or leisure—and create a loyalty program and a corporate web portal. This campaign would be centrally controlled, with every hotel manager contributing a pitch for his or her property; Fernando could develop a single image for the consumer to see.

Niket Anjaria, *management trainee, Raj Petro Specialities*

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