

News

Olivier Poirot, Accor NA: interview transcript

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Stacey Higgins: Hi I'm Stacey Higgins here at the NYU Hotel Investment Conference in New York City at the Marriot Marquis. I'm here with Olivier Poirot, who is the CEO of Accor North America. Thanks for joining me.

Olivier Poirot: Thank you for having me.

Higgins: It's nice to see you. Can you tell me about what the strategy for Accor is right now and how Accor North America fits into that? Let's start there.

Poirot: Starting with Accor the global picture, we have a combination of brands, over 10 brands across the world running from budget to luxury. We are one of the few players in the market covering the whole spectrum of brands in the hotel industry. We're a publicly traded company on the Paris Stock Exchange. We own or operate or franchise or manage 4,100 locations worldwide. That's in over 90 countries. We have about 150,000 employees and associates. And we manage by and large 500,000 rooms worldwide. Our strategy is to continue to expand our brands. We are one of the largest brand owners in the world. We are currently the largest operator in the world. We are also clearly a very strong leader in Europe and a very strong leader in Asia. And we are also a very strong leader in Latin America. So we are very well-positioned in the U.S. here with Motel 6, which has its own leadership in the economy segment. And so looking specifically at North America, we are present in this market predominantly with the combination of brands, Motel 6 and Studio 6, which are the lower end of the spectrum. As I mentioned earlier, Motel 6 is a very predominant brand in the U.S. market.

Higgins: How many properties are in the U.S. right now?

Poirot: We have close to 1,100 locations and that's (expanded) by about 15 locations a year, predominantly through franchise development. We own about 65 percent of the network. The rest is franchised. That's something we like on our business model to have a combination of ownership and franchise development. We also have in the U.S. presence through the Sofitel brand, and many in the U.S. and Canada through the Novotel brand, which is more mid-scale properties.

Higgins: Can you talk to me about the growth strategy. I was sitting in the panel that you were in earlier today, and I heard you discuss some of the different methods by which you were going to facilitate growth for the company. Can you summarize that for our viewers?

Poirot: Sure. First of all, we are ramping up to about 30,000 to 35,000 rooms a year in the next two or three years. The way we are going to do that is predominately through a combination of franchise management and most of the management agreements are going to come out of Asia, which is one very high and intense area of development for us. The rest is going to predominately come from the franchise development out of Europe. We are already a very strong leader in Europe, but we still have a lot of room to grow from a franchise development standpoint.

Higgins: Something that has surprised me about Europe and probably because of the U.S.-nature of a lot of the hotel news, I didn't realize that franchising is somewhat of a different idea there. Can you explain that?

Poirot: It follows the development that is here in the U.S. It's actually true of both franchise and management. That's a premonition of historically a lot of the hotel supply being in the hands of small owners, if you will, and some of those owners over the years have started to see the interest of joining a franchise network. But we are still very much at the beginning of it, and so it's even more obvious to those guys to join a network such as ours because we have such a strong presence and distribution across Europe. But if you look at markets like Italy, it's a very interesting example. Italy is the number one market in Europe for hotel rooms, and that market is extraordinarily fragmented, and we're trying to sell to potential franchisees the interest of joining our brands to reinforce their revenue.

Higgins: Do you think now that you mention it, in particular in Italy is that an idea that people are amenable to the franchise aspects since it wouldn't be giving up the property they already own? What is the impression you get, let's say in Europe for the franchising idea?

Poirot: We think we can, definitely. We've made already a lot of progress over the past two years. I think part of the issue is that historically we've relied on a very strong franchise network in France and France alone. And we went to the other neighboring countries Spain, Germany and the U.K specifically with our own brands, but through essentially building these properties ourselves. Whereas in France over 40 years of existence we've learned to rely on partners, franchisees specifically, and as of today about 50 percent of the properties in France are brand names or already franchised. So we are trying to boost our development efforts going into the U.K. and Germany and Italy and Spain, specifically those countries with franchised development. So it's been a lot about explaining to potential partners what a franchise can do for them and also putting some resources behind it—some muscle, if you want. And we recently reorganized to boost those efforts.

Higgins: You just mentioned that you are not against providing some capital when necessary. Is that correct?

Poirot: That's correct. We've always been extremely conservative from a financial standpoint, so we stayed away from doing highly leveraged transactions these past few years. We're extremely grateful for having been that prudent over those years, but going forward we're trying to take a long-term view and say on the long-term basis, every year we should be able to refinance €200 million (US\$246.7 million) of assets. And every year we should be able to reinvest that amount into new developments, which in turn can get refinanced. So it's like a perpetual mission. So it doesn't mean to say that all of the development is to come from property acquisitions or property development. It's to say we also have that angle because in some markets it does make a lot of sense to put some money into land.

Higgins: And I would say relative to what we hear out there, even if that's not your primary mode of growth, it's still an impressive number for the global market. Let's focus on North America a little more. What is the specific plan for growth for Motel 6, and I think, if I remember correctly, you mentioned that there's a new strategy for Studio 6 as well as, as far as facilitating some growth.



Poirot: We've been extraordinarily successful with franchising Motel 6. We started that about 10 years ago. First of all, we started it on a fairly timid basis adding about 10 to 15 locations a year. About three years ago we said we can be a little bit more aggressive in our franchising effort. So every year we have about 350 applicants trying to join the network and we select 50 of those to become new franchisees. So it's a very discriminating process from a quality standpoint. We want to associate ourselves with the right partners. We look at our franchisees as partners. So we've been very successful continuing to add about 50 locations. Last year we opened 67 locations. So that's going to continue for a while and continue to bring a lot of good, new progress to the rental. With Studio 6, it's more difficult because most the inventory in the extended stay segment has been historically in the hands of a few corporations and the market is also much younger. So there hasn't been that many people, especially franchisees, interested in the extended stay segment. So what we are trying to do there is approach some of those owners or portfolios to manage portfolios of Studio 6 locations. We think that is a good role and a good vehicle for the growth of Studio 6.

Higgins: Can we talk about other regions? I know with the position change, you've had some involvement with that.

Poirot: Yeah, we can talk about sustainability of development.

Higgins: You can actually just start if you want.

Poirot: Something we've been doing and pursuing with a passion for a few years is trying to ramp up our sustainability development efforts. What that means for us is that we select properties that are not only good for the environment, but also good from a cap ex and right on the investment standpoint and specifically doing something also to the bottom line. So as part of that we've been trying to associate also with the Green Key program. And so we are hoping to increase tremendously the number of all locations in that program by the end of this year or the beginning of next year.

Something else we did is we've recently developed a new prototype for the brand. The first in 12 years. We not only came up with a product to renovate the existing network, we also came up with a brand new prototype, which about 10 of our franchisees are duplicating from the ground up. As part of that default, we not only reduced the cost to build a Motel 6, the cost per key has reduced compared to the old prototype. We think the room looks much better. But not only that, we also added a lot of green features to the building that makes our building such favorable for LEED. So it's not something we intentionally pursued when we developed the property. In fact we had discussions and we said well we're going to do what it takes to make the building as green as possible but as we came to the end of building the prototype our technical guys came back and said we've done so many features that we think it's now LEED certifiable. So, we've launched the application. We are waiting for the answers. It's taking a little bit longer than we would have expected to get an answer, but we are still extremely optimistic that we should be getting an answer on that very soon.

Higgins: Can you talk about future growth with that prototype? You said you've had 10 that have at least broken ground already?

Poirot: So most of our development the past few years has been through conversions. So a lot of what we do with the new prototype is renovating the network which is what we do every year. Every year we tend to renovate 10 percent of the network between all locations and the franchise locations. So people have been using the new prototype now for two years. And so by the end of the year we have about 100 locations worldwide which are the new kind. And that has brought a lot of success to whichever market we've been to. We've seen dramatic improvements in the market share penetration. So that's a great product for our customers and franchisees. The property we built in Northlake (the Motel 6 Northlake-Speedway Hotel) is now the prototype for the brand. A lot of our franchisees were extremely excited to be able to get access to that because again from a cost standpoint, from a look standpoint, from a sustainability development standpoint, we think it is an absolute winner and the feedback we get from the guest and the franchisees is just overwhelming. So in this environment, it's been tough for franchisees to get funding for new-build properties, but we have in excess of 10 and about 30 are being planned, of which 10 are under construction right now.

Higgins: Do they have the option of not using the new prototype for a new build?

Poirot: No, going forward that is the new standard. Likewise from a renovations standpoint, when any of our franchisees are going to renovate their property going forward they are going to use the new look.

Higgins: I know we are getting close to the time where you need to move on. Are there any closing thoughts you have on concerns or issues affecting the larger hotel industry? Just given the climate of the conference that we're at, just your thoughts on where we are in the cycle.

Poirot: It's very difficult. A lot of wiser and smarter people than I have been making predictions over the past year and a half. I'm not an economist, and I don't have a crystal ball. I think the worst is definitely behind us. I think most people are cautiously optimistic looking forward to the fact that it's going to be a slow recovery as opposed to an aggressive one. I think that's probably correct. That's something we're counting on. So we're not going to go back to numbers that we'd known in 2006, (2007) and (2008) for a while. But again, the brand Motel 6 has been around 48 years. The Accor Group has been around 43 years. So we know together we have a collective memory of what it takes to go through recessions and come out of recessions. And I guess the beauty of those recession cycles being so close to one another is that the same people tend to be there from one to the next and we tend to learn on how to get through them and come out stronger of these recessions.

Higgins: Well good luck to you. It sounds like you have a lot of exciting things happening at Accor. Thanks again for your time Olivier.

Poirot: Thank you very much for having me.