

LUX*: Staging a Service Revolution in a Resort Chain

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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 prompted a transformation that showed positive results within 12 months. This case study describes a service revolution that led to rapid improvements in service culture and guest experience, which in turn led 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 had come to be associated with stiff-upper-lipped service and stuffy opulence. Lighter hospitality meant breaking away from these precedents to offer a more effervescent experience without compromising on the hotel’s upscale sensibilities. At the same time, LUX* wanted to brighten up guest experiences. For example, the company significantly lowered the prices of items in the mini-bar to encourage guests to just take what they fancied and enjoy themselves. Such measures allowed LUX* to ensure that both guests and business would benefit from its operations.

Although LUX* was launched only four years ago, the group’s resorts have been doing exceptionally well. Within a short span of time, LUX* has successfully transformed its service

culture. The group has seen 16 consecutive quarter-on-quarter improvements in its financial performance. The group’s resorts also enjoy a higher occupancy rate than the industry average in the destinations where they operate (measured quarterly by the Market Penetration Index, which compares the hotel’s occupancy against its competitive set). The group’s financial performance is reflected in the multiple accolades it has won for service excellence. These include the “Indian Ocean Leading Hotel” award for LUX* Maldives from World Travel Awards, the “Best Resort Hotel Mauritius” award for LUX* Belle Mare from International Hospitality Awards, and the “Reunion Island’s Leading Hotel” award for LUX* Ile de la Réunion from World Travel Awards.

THE DARK AGES

However, things were not always this rosy. Before LUX* was launched in 2011, the group was known as Naiade Resorts, and the company suffered from poor financial health. None of its hotels were on the list of top 10 hotels on TripAdvisor in their geographic competitive sets. To top it off, the Naiade brand lacked clarity. Its brand name was used for nine different properties ranging from three to five stars, creating an unclear positioning in the minds of consumers. The problems in its positioning became apparent when the global financial crisis struck in 2008–2009, causing a large drop in occupancy and room rates (Exhibit 2). The group’s troubles culminated in 2011 with a criminal case involving the high-profile murder of an Irish hotel guest.

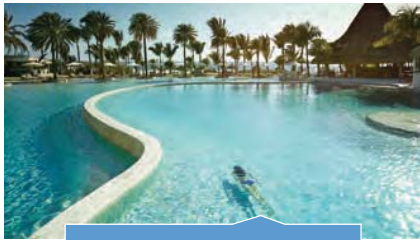
Having witnessed prolonged economic turmoil and a criminal case, the motivation and morale of hotel employees were unprecedentedly low. Financially, the impact of these troubles cumulated in a downward trajectory in the company’s performance from 2008 to 2010 (Exhibit 3). The company reported a loss in 2010.

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All dollar amounts referred to in the text are in U.S. dollars unless otherwise indicated. The exchange rate used for all currency conversions is MUR100 to US\$2.845.

Exhibit 1: Some of the LUX* resorts in the Indian Ocean.



LUX* Belle Mare's Pool



LUX* Belle Mare's Beach



LUX* Belle Mare's Villa



LUX* Le Morne



LUX* Le Morne's Beach

Note: LUX* owns eight seaside resorts by the Indian Ocean. Each of them are fitted with an expansive infinity pool, stylish bars and ocean themed furnishings.

After hitting rock bottom, the company's management had to move fast, and Naiade Resorts achieved a turnaround within a very short span of time. By mid-2011, Naiade Resorts saw an improvement in its service, and this quickly translated into improved financial performance. Since then, the company has witnessed substantive and consistent service culture improvement and financial performance growth. How did the group manage this turnaround so quickly?

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.

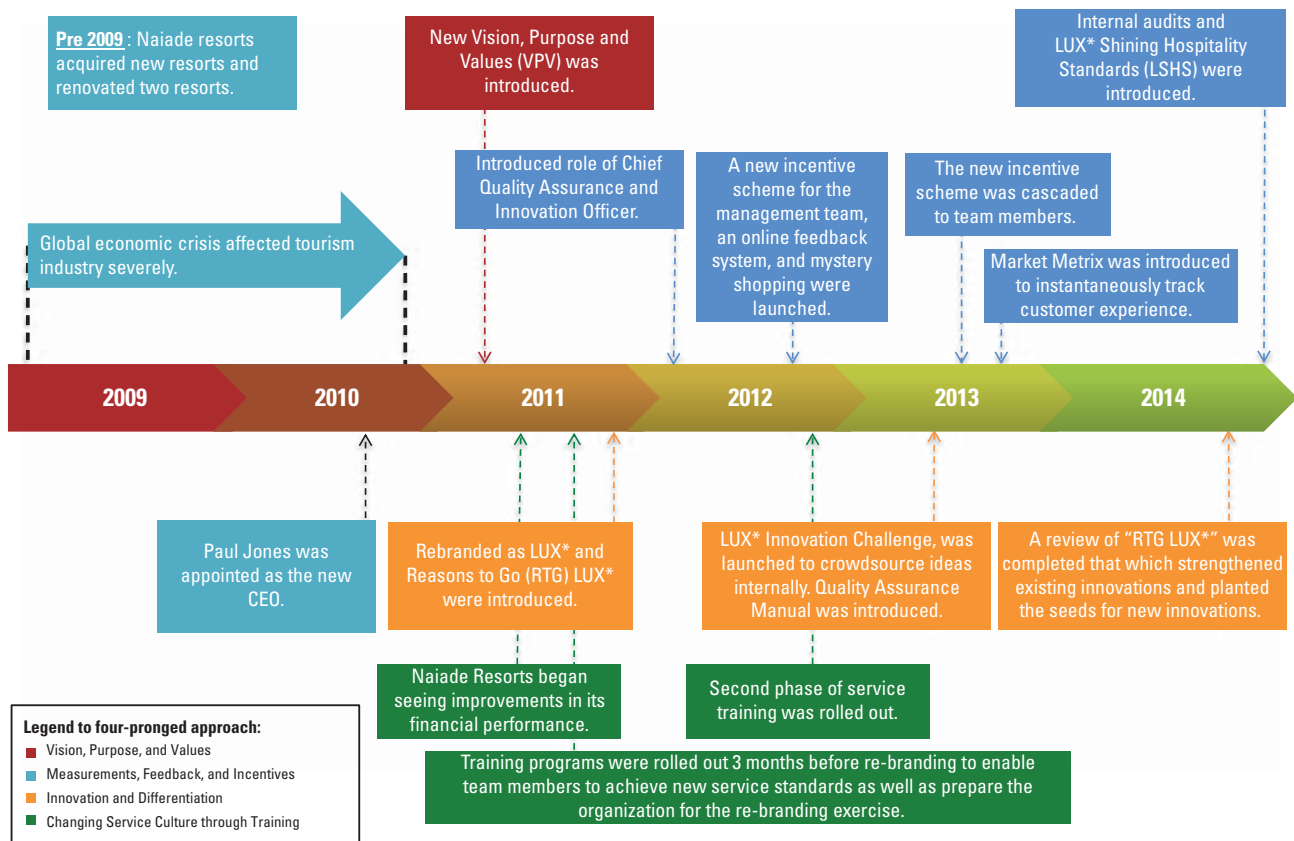
Under Jones's leadership, many changes were introduced to the organization within the first 12 months of his appointment. They were aimed at rapidly improving the profitability of the business and creating a world-class brand that could eventually expand internationally. However, this marked a difficult transitional period for Naiade Resorts, which was in financial doldrums. Every month, the company 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 the company values. Naiade Resorts' business model was shifted from one of owning hotels to one of managing them following an asset-light strategy. This 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.

To decide how to go forward, Paul Jones flew in the general managers from its resorts and the group's senior management from all over the world. The managers and executives from various levels made important decisions on the company. These include the company's new Vision, Purpose, and Values

Exhibit 4: LUX*'s four-pronged approach.



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.

(VPV); a new name for the business; and the re-defining of service standards. Many of these changes were implemented almost immediately after being agreed upon. This allowed for a progressive roll-out of the company's new strategy.

Second, to engage and reinvigorate its staff in the transformation, the top management decided it had to build the company's service culture from scratch. This included extensive training across all levels of the organization, an alignment of expectations of service standards, and a psychological and tangible breakaway from the old Naiade Resorts.

Third, Jones leveraged a fledgling spirit of innovation to build an organization that is bold, open to ideas and experimentation, and willing to accept failure. This was aimed at enabling LUX* to differentiate its value proposition.

Lastly, as CEO, Jones also embedded various performance management tools to sustain transformation. These tools included

the measurement of service and the use of employee-incentive schemes to re-align a transformed organization.

In the review of this four-pronged approach, the first major change was the introduction of the new VPV.

VISION, PURPOSE, AND VALUES

Before any transformation could occur, Jones needed a guiding compass that would provide a foundation for the new Naiade Resorts. A professional credo would expound the company's aspirations and provide a fundamental rallying zeitgeist for the staff. The Vision, "We Make Each Moment Matter" and the Purpose, "Helping People Celebrate Life" were crafted, and the Values of "People, Passion, Integrity, Leadership, and Creativity" were selected. These tied in closely with how staff members were expected to behave and interact with guests.

Between February 2011 and August 2011, every team member of Naiade was called upon to participate in the VPV foundation

delivering service that was distinctively LUX*. For example, LSHS provided guidance to employees by grooming them and training them on how they should interact with guests. A company-wide standard, LSHS was adapted to each resort in the form of standard operating procedures. The company also changed the way it tracked these new standards. For instance, it began to use internal audits in place of mystery shopping.

FUTURE PLANS

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

By the end of 2016, LUX* expects to have almost a third of its portfolio owned by third parties but managed by LUX*.

Finally, LUX* has entered into a franchise agreement to open Café LUX*, a Reason to Go LUX* concept, outside the hotel. With its strong service culture, LUX* aims to become a global company with a bigger footprint.

STUDY QUESTIONS

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