

Constant Reinvention

An Interview with Steve Joyce,
President and Chief Executive Officer, Choice Hotels



The Plantation on Crystal River in Crystal River, Florida

EDITORS' NOTE Steve Joyce is also a member of the board of directors of Choice Hotels International, Inc. Joyce took the helm of Choice Hotels in 2008. Prior to joining Choice Hotels, Joyce served as Executive Vice President, Global Development/Owner & Franchise Services for Marriott International, Inc. after having held previous positions in franchising, finance, and operational consulting. Joyce holds a bachelor's degree in commerce from the University of Virginia and has done graduate work at Cornell University, Wharton Business School, and the Aspen Institute.



Steve Joyce

COMPANY BRIEF Choice Hotels International, Inc.® (choicehotels.com) is one of the world's largest lodging companies. With more than 6,300 hotels franchised in more than 35 countries and territories, they represent more than 500,000 rooms around the globe. As of September 30, 2015, 638 hotels were in their development pipeline. The company's Ascend Hotel Collection®, Cambria® hotels & suites, Comfort Inn®, Comfort Suites®, Sleep Inn®, Quality®, Clarion®, MainStay Suites®, Suburban Extended Stay Hotel®, Econo Lodge®, and Rodeway Inn® brands provide a spectrum of lodging choices to meet guests' needs.

Would you talk about the history of Choice Hotels and what makes the brand so strong today?

What makes Choice Hotels really strong is that we've had the ability to reinvent ourselves in times that were necessary. While its roots go back to the '30s, the company today doesn't look anything like it did at the start.

One of the founders was a focused, determined former plumber who got into the hotel business and decided he liked it. He had a great interest in the real estate side so he built hotels. Then he realized he needed marketing assistance so he tried to join a cooperative called Quality Courts, but they turned him down. He later convinced them to let him join and, as a result, he started working within that group and was seen as an innovator almost immediately.

Choice has been a pioneer in the hospitality industry and has been the first to introduce features such as: a 24-hour reservation system,

smoke-free rooms, and putting phones in the rooms. Recently, we were first with the iPhone app, and we just revealed a new project with Ford where a guest can book a reservation without taking his hands off the steering wheel.

Choice has been a regular reinventor of itself. It went from independent owner/operator of hotels to a manager of hotels, to today where the company is a franchisor of hotels. The brand was one of the first to do segmentation.

The owners got interested in Manor Care, which was the largest assisted-living company and Choice went into that. Choice was then spun off in 1997 and the company that exists today is a pure franchise play – there are few if any companies in the industry that are more asset light and more profitable than us.

In 1997, there were individuals who entered the company and decided scale was important, so the company became focused on building scale with less focus on consistency and quality.

In 2007, they started thinking that a directional shift was needed and they called me. I had a conversation with Stewart Bainum Jr. to discuss what he was doing. He asked if I wanted to come in and lead the turnaround. I met with every board member and they were all aligned to shift the strategy, develop more consistency, and move into upscale. That's what we've done. Our timing could have been better with the recession, but it has been a great experience.

Is Choice Hotels now a company that covers all segments and how important is the high end going forward?

In the hotel business, scale is everything so we have to be in the segments our customers want us to be in. The reality is that, given Choice's start and our base, we're not going to do much on the luxury end, but we are moving rapidly into the upscale segment with Cambria and Ascend. In the future, I can see us in the upper upscale segment with a full service brand that fits the Choice persona, which is value-oriented and friendly. We deliver quality product and value to the working consumer, be it at the upper upscale or moderate tier, or at upper economy. We are very well distributed in the upper economy through the

upper moderate – we're one in 10 hotels in this country in these categories. While each of these brands has a lot of room to grow, we are still largely absent in the other half of the business, which is beyond upscale.

Speaking of upscale, part of what interested me in Choice was the potential of what could be done with the Cambria brand, which the company wasn't putting its balance sheet behind. I wanted to use the balance sheet to grow Cambria.

The other exciting area of the company is our Ascend Hotel Collection, which was born out of necessity. No one was building anything in 2009. Because we have 6,300 hotels, we have enormous demand for urban markets and at that time, there were few hotels in those markets. It was driving me crazy to know we had eight million-plus people calling for a hotel in New York and I had nothing to give them.

We were sitting in the middle of a Cambria development discussion with a person who had a boutique hotel. I asked when he was opening and he said March 2009, but he didn't feel good about the timing. I asked if I could sell half his inventory in a white label sale that his consumers wouldn't see but other guests could purchase for \$170, would he be interested. He said he wasn't going to put his \$360/night boutique hotel on choicehotels.com. I promised I could fill half his rooms. He was going to go through Preferred at the time. Three months later, he sent an application, and the Ascend Collection has now gone from 18 hotels to nearly 140.

We knew we did something right because others copied our model. We're the largest and we're growing greatly in comparison to the others, but we did it because we had a huge consumer demand for markets that we couldn't get into. So now we're also pointing Cambria at those urban markets where we have huge demand and little product, and that ensures the success of those hotels as well.

How strong is the European market today?

We are the premier conversion company in the business – Europe is mostly conversion. There are going to be some new builds but not many.

Europe, like the U.S. in the '80s, is largely unbranded and shifting rapidly to branding. This is out of necessity because the distribution

environment in Europe with the OTAs is so difficult. They need to be part of a system that can help them at least get decent pricing on it but, hopefully, also help wean them off of that to an extent.

We see a huge conversion opportunity. We just signed two multiunit deals – in Germany and Belgium. We recently had the most successful European global conference we have ever had.

It's a pretty exciting time to be there. Everybody looks at Europe and says they're not growing as fast as they are in the States, but our response is that Europe will come back. People are looking for opportunities to drive more business into their hotels so we think it's the right time. We have put more resources in and we're investing incentive capital there to try to drive multiunit deals. If we're going to get the kind of volume we have here in any reasonable amount of time, we have to go after the larger portfolios and probably put some capital to work.

How do you make sure you don't lose consistency as you grow?

We have a very extensive customer feedback mechanism and we post the guest survey results on our website. We have third-party independent inspectors go into the hotels so we know what is going on. We also have our own field folks in those hotels on a regular basis.

Brand to brand is different. Cambria and Sleep Inn are new construction; many of the new Comfort properties we're bringing in are new construction; Ascend is mostly conversion. We have an extensive process where we review the property and prepare an improvement plan, and we then turn the property on. This works pretty well.

When you're this large, how important is it to maintain the culture?

It is hard to keep that sense of tension if we're doing things the right way, but I believe in challenge and we live in healthy fear of the distribution environment that is rapidly changing.

We view ourselves as much a technology company as a brand company because we're running it like a Silicon Valley tech company where we do Plan/Build/Run. Ours are all self-run teams and we do 90-day sprints, so we have become a pretty efficient tech machine.

We can't do that unless we're willing to stay on the front end. Since Choice is doing some fun things that people see, we attract more talent, so we are competing with Google, Microsoft, and Amazon.

We challenge ourselves regularly to start new businesses. A few years ago, we launched a tech company called SkyTouch, so we had the first and only massively distributed cloud-based property management system.

We just launched a vacation rental business, which is also going to pay significant dividends. In addition, we bought a tech platform for vacation rental and we have developed a business that can sell vacation rentals for vacation rental management companies.

We also have 24 million Choice Privilege members in our loyalty program. We see a continuous cycle with our consumers and want to make sure that they have many options for earning points and getting value out of the program with us.

I spend 40 percent of my time thinking about distribution. It's really about what we can do to drive more of an edge between ourselves, the OTAs, and disrupters like Airbnb. It's an environment fraught with peril, which means it's an environment fraught with opportunity.

What we're worried about the most is what is going to come at us from a new competitor, and most of the concerns are nontraditional.

It's the desire to win in this marketplace and the desire not to be made irrelevant that drives the sense of innovation and aggressive behavior. Our view is, if we're not trying new things, we're going to get left behind when someone else does.

You're a long-term thinker and this business is short-term focused, quarter to quarter. Is there a balance?

I have an advantage with only three shareholders, including the founding family, that hold the majority of our stock. I can make three phone calls and get the support from them, and they're more interested in a longer term view. We have to create value in the midterm but, even moreso, in the long term.

Are the days of the great independent hotel gone?

Yes. The Internet was once the friend of independent hotels – they could finally be found and booked. Now lodging

companies are spending hundreds of millions in mobile alone. Not only can independent hotels not afford to have their own mobile app but they can't have it for six different devices.

Our sense is we're going to be entirely mobile within a few years and we're spending money in the right places to make sure we're relevant.

We're not the biggest and we don't have some of the resources some of the other companies have, but we do have a more entrepreneurial spirit and we move faster. We like where we are technology-wise and we will build off that.

Are there moments where you can stop and enjoy the process?

I'm not good at that. I'm really good at thinking of what I could have done better. I enjoy looking at what is happening. Several people on my team said I wouldn't be able to reinvent the Comfort brand. So to make a big splash and for it to happen in a hurry, we put tens of millions of our money into incentives for property improvement, we picked off 150 hotels that weren't performing and another 150, and we felt if we could move 400 hotels in a hurry, the others would see that success breeds on itself.

We felt if we could get it done in four years that would be as fast as anyone had ever done it. Two years into the program, we started gaining share and we've gained share every month since then. We thought we were going to have to lose a lot more hotels – we have terminated hundreds of hotels, which is a lot – but we have had to terminate fewer than I thought. When they saw us terminating hotels, the remaining owners said they wanted to do whatever it took to keep the Comfort flag, so we have a lot more folks who put significant capital in because they wanted to retain that flag.

As a result, a couple of brands will soon be surprised at who is breathing down their necks.

Are there still great hotel brands? Yes. In the hotel business, distribution matters.

Our franchisees put sweat, equity, and their own money into their hotels. The idea that someone (online travel agencies) would come between them and try to carve out risk profits where they took no risk is a problem for me, and there is no need for it. If we play smart and take care of what we can take care of, we'll be fine in the long run.

I don't think we or the industry have done enough. We need to provide more leadership in these areas because the folks that have put the money in deserve those profits and risk/rewards.

Why isn't there more of a voice behind promoting the message that travel and tourism has such a vast impact?

We lost most of our international market share after 9/11. We put a lot of people out of work in this country back to work.

The American public in general doesn't understand it. They still see travel as a privilege or something frivolous. Business gets done when people are on the road. We're not talking about hotel rooms – we're talking about connecting people to people. ●



Cambria Washington, D.C. Social Circle Rooftop Lounge