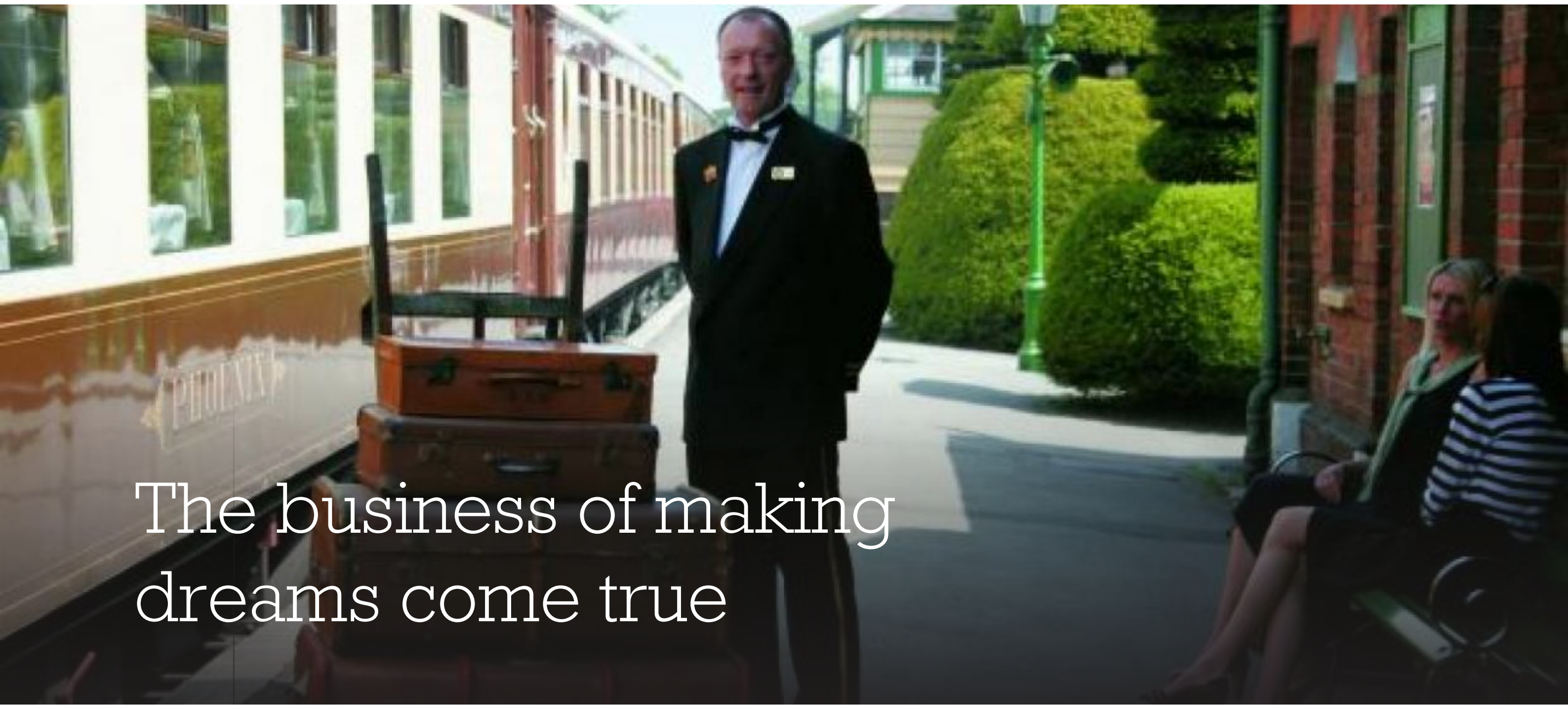
INSEAD The Business School for the World®

KNOWLEDGE



The business of making dreams come true

What is it about train travel that evokes a sense of romance and nostalgia, and what is the mystique and allure of trains? Who better to ask than the chief executive of the Orient-Express, the iconic hotel on wheels and arguably the ultimate train ride?

What is it about train travel that evokes a sense of romance and nostalgia, and what is the mystique and allure of trains? Who better to ask than the chief executive of the Orient-Express, the iconic hotel on wheels and arguably the ultimate train ride?

"Obviously we are helped by our name because people immediately think of Agatha Christie – you can't pay for marketing like that," says **Paul White**. "But I think there is a mystique about it – people generally do the Orient-Express once in a lifetime. They are not quite sure what they are getting when they go onboard; they just know that dreams are going to come true. They've talked to others who have done it and the memories that go with it are phenomenal."

The brand

Beside the train business, the company has some 40 hotels around the world and operates safaris and river cruises. Its hotels are not just about a 300 square foot room or a nice bed, White told INSEAD Knowledge, it is about the whole experience that goes with it.

"We are dealing in the luxury end of the hotel market and many will say it's easy to overlay some of the luxury things we do because the luxury end can charge luxury prices. But what really underpins our brand value is the care we take of our guests, the style in which we do it. We try to give them the best experience on property wherever they are in the world. The Orient-Express brand is about luxury experiential travel, not just about a hotel company."

According to White, luxury has to be real luxury: genuine and authentic. "What we are seeing is that the true purveyors of luxury are succeeding. There are a huge number of hotels calling themselves luxury and a lot of them have fallen by the wayside. You have to do it right – you have to really deliver. Luxury is going to become more pure as we go forward. People that are just hanging on the coat tails of luxury are going to find it more difficult to succeed."

What the customer wants

When Orient-Express selects properties to develop their hotels, they start with the customer and what their guests want because "customers need change and customers themselves change."

Over the 20-year period that he's been with the company, White says he has seen a lot of changes in destinations. Back then, people wouldn't think of going to Peru. Yet 10 years ago, it became the hot destination. Today the Orient-Express has five properties in Peru. The company bought a property six years ago in Luang Prabang in Laos. Two years later, the *New York Times* called Laos the number one destination in the world.

"I'd like to say we were strategic and we were four years ahead of the *New York Times* – that plays a part - but you have to think of where your guests want to be. And that really drives you to continually reinvent the portfolio," argues White. "In 2009 we bought two hotels in Sicily. Maybe a year later than we could have done, but Sicily this year was voted number one destination in the world by Conde Nast. The two properties were an Orient-Express fit for our guests. By that I mean they fit the expectation. And really that's what we continue to do - to deliver to expectation."

White adds that the skill of his management team is to make sure that their portfolio is kept fresh and interesting to their customers and that means they do sell holdings occasionally, especially if it is profitable.

Understanding and dealing with debt

With the recent economic crisis, White found that the company's general managers became more focused on the balance sheet. His management team now understands the word 'debt' whereas before only the finance team understood it; the importance of managing debt has now come to the fore.

White says that Orient-Express ran its business in a way that was similar to the Ritz as it was over-leveraged. In the last three years the company's debt has been halved to 500 million dollars from one billion, putting it in a much stronger position going forward into the next cycle.

"At the end of 2008 when we saw what was happening, we approached the issue in four ways. We did some cost-cutting but we focused on costs that could be cut for the long term -- not just for the short term -- and we sold about $120m worth of non-core assets," says White.

The company has a fairly sizable real estate bank which it embarked on selling but did not succeed in doing. White says it will be patient in selling those villas around the world.

In addition, the firm approached its shareholders at the start of 2009, and told them what the situation was and asked for support. The company then did a couple of equity offerings which were hugely oversubscribed.

Spending trends since the recession

Since the downturn, Orient-Express hasn't seen a lot of pushback in the high season in its suites and junior suites, and lower rates during the off peak season – such as July and August in Cape Town and March and April in Venice – have attracted aspirational customers with slightly less purchasing power.

White says while customers are happy to spend $1,000-$2,000 on a room, the company doesn't overcharge for something they know the value of. "They will really push back on a $10 or $15 charge on internet or pricing in the minibar. And once people are upset about something, that will destroy the experience that you are trying to deliver. The days of the five-euro Coke are dead."

"Even at our end we have to be conscious that we understand that our customers are intelligent; they know how much that Coke costs, and we charge the appropriate (amount) for it," says White. "On the other hand, if we are doing a massage on a gondola on a canal in Venice or something creative like that, the sky's the limit on what you can charge."

Paul White was a speaker at the Bloomberg Businessweek European Leadership Forum held on 23 November 2010.