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oikos Sustainability Case Writing Competition 2006

3rd Prize

Kimpton Hotels

Balancing Strategy and Environmental Sustainability

Murray Silverman
Tom Thomas

College of Business
San Francisco State University

CASE SUMMARY

Kimpton's founder, Bill Kimpton, is credited with inventing the "boutique" hotel segment in 1981. By 2005, Kimpton Hotels was comprised of 39 hotels throughout North America and Canada, each one designed to create a unique and exceptional guest experience.

While Kimpton was known for designing hotels that reflected the energy and personality of their distinct locations, by 2004 the company's top executives realized that uniting its hotel portfolio under a single recognizable brand could add considerable value. One aspect of the branding effort was to add the Kimpton name to each property, as in "Hotel Monaco San Francisco, a Kimpton Hotel." Another aspect of their efforts to establish the Kimpton brand was the development and roll out to all of their hotels of a major environmental initiative they named EarthCare. EarthCare was built on an already established commitment to environmental and social responsibility. Their Hotel Triton was a model for the program, as it already included initiatives such as: energy efficient lighting solutions, low-flow/high pressure showerheads and sink aerators, and toilets that reduce water use, linen and towel reuse program, non-toxic, non-allergenic, all natural cleaning products, low VOC paints used to paint walls and ceilings and more. Planned future initiatives went well beyond those in the Triton Hotel.

There were two basic ground rules for the rollout: New initiatives couldn't cost more than what was already budgeted for operations and capital improvements, and they couldn't adversely affect customer perceptions or satisfaction.

The case allows students to explore whether there is a 'business case' for the Earth Care Program as well as posing a number of implementation issues, including:

- *Potential resistance by General managers to centralized imperatives*
- *Potential resistance by hotel staff to new products and procedures*
- *Investments might have slower payback period, lower rate of return, intangible benefits*
- *For some products, required investments might exceed existing budgets*

This case was developed to be cross-disciplinary and can be included in courses in:

- environmental management
- business & society
- strategic management

Kimpton Hotels: Balancing Strategy and Environmental Sustainability

Michael Pace faced a dilemma. He was Kimpton Hotels' West Coast Director of Operations and Environmental Programs, General Manager of its Villa Florence Hotel in San Francisco, and the main catalyst for implementing its "EarthCare" program nationally. He was determined to help the boutique hotel chain "walk the talk" regarding its commitment to environmental responsibility, but he also had agreed not to introduce any new products or processes that would be more expensive than those they replaced. Now that the first phase of the program had been implemented nationwide, he and the company's team of "eco-champions" were facing some difficult challenges with the rollout of the second, more ambitious, phase.

For example, the team had to decide whether to recommend the purchase of linens (towels, sheets, pillow cases, etc.) made of organic cotton, which vendors insisted would cost at least 50% more than standard linens. It would cost an average of $100-150k to switch out all the linens in each hotel. If they couldn't negotiate the price down, was there some way they could introduce organic cotton in a limited but meaningful way? All linens are commingled in the laundry, so they can't be introduced one floor at a time. Maybe they could start with pillowcases – though the sheets wouldn't be organic, guests would be resting their heads on organic cotton. Would it even be worth spending so much on linens? From a PR perspective, would it make that much of a difference? Should they wait and see, phase it in over time, or drop the idea altogether? They would face similar issues when deciding whether to recommend environmentally friendly carpeting or furniture.

And then there was recycling. The program had been field tested at Kimpton hotels in San Francisco, a singular city in one of the most environmentally progressive states in the U.S. Now the eco-champions team had to figure out how to make it work in cities like Chicago, which didn't even have a municipal recycling program in place. In Denver, recycling actually cost more than waste disposal to a landfill, due to the low cost of land in eastern Colorado. Pace knew that the environmental initiatives most likely to succeed would be those that could be seamlessly implemented by the General Managers and employees of the 39 unique Kimpton hotels around the country. The last thing he wanted to do was to make their jobs more difficult by imposing cookie-cutter standards.

Kimpton had recently embarked on a national campaign to build brand awareness by associating its name with each unique property. Pace knew that the success of Kimpton's strategy would rest heavily on its ability to maintain the care, integrity, and uniqueness that customers had come to associate with its chain of boutique hotels. Other hotel companies had begun investing heavily in the niche that Kimpton had pioneered. To differentiate itself, the company had to continue to find innovative ways to offer services that addressed the needs and values of its customers, and EarthCare was a crucial part of its plans. But could Pace find a way to make it happen within Kimpton's budget, and

without adversely affecting the customer experience? Would Kimpton be able to keep the promises made by its new corporate brand?

The U.S. Hotel Industry

By the summer of 2005, the absence of any major terror attacks since September 11, 2001 had encouraged Americans to begin traveling again. Buoyed by a rebound in business travel and continued growth in leisure related spending, the lodging industry had shown steady growth since mid –2003. In 2004, the industry posted impressive gains in room occupancy levels, REVPAR (revenue per available room) and average room rates (see Exhibit 1). In the previous year, demand had been dampened by the outbreak of the war with Iraq and the soft US economy. Industry pre-tax profit increased in 2004 to $14.5B over $12.8B in 2003, but was still far below the recent peak of $22.5B in 2000.

The US hotel industry was comprised of 55,000 properties and 4.5 million rooms. Its 2004, $112B revenues included room sales (75%), food and beverages (18%) and miscellaneous such as phone charges, movies, etc. (7%). Revenues in 2003 were $105B. There were many large hotel chains (see Exhibit 2), however, no single lodging company accounted for more than 15% of all US hotel rooms. Hotels can be segmented into luxury (Four Seasons, Fairmont, Carlton), upscale (Embassy, Sheraton, Radisson, Courtyard), mid-market (Holiday Inn, Ramada, Comfort Inn) and economy (Motel 6, Days Inn, Red Roof). Within the upscale segment there are two strategic niches: boutique hotels in urban areas which differentiated themselves through unique décor, amenities and service and bed & breakfasts (B&B's) which were typically small, independent properties featuring unique settings and décor.

Kimpton Hotels built a portfolio of unique properties in the upscale segment of the industry, and they are credited with inventing the "boutique" hotel segment in 1981.[1] By 1999, boutique hotels accounted for about 15% of San Francisco's estimated 31,000 rooms, according to PKF Consulting. Boutique hotels constituted about 1% of the industry nationwide and the segment was growing. The Starwood Hotel chain entered the segment with its 'W' hotels and Continental Hotels PLC with Hotel Indigo. In San Francisco, Kimpton was the recognized market leader with 67 % of the city's boutique hotels. Joie de Vivre Hotels had 20% of the local market, and Personality Hotels on Union Square had 12%. With 2004 sales of $400 million, up from $350 million in 2003, Kimpton planned to add at least three to five properties per year in major markets such as New York, Boston, Washington, D.C. and Miami.

Approximately 55% of hotel customers were individuals attending a business meeting, conference or group meeting. Foreign travelers contributed significantly to room demand, especially in major cities. Competition for these customers was based on many factors including price, location, brand loyalty, customer service and value added services. It appeared that the industry's earning recovery had been limited by consumer price-shopping on the Internet, and by cost pressures driven by rising healthcare costs, energy

costs and property taxes. Companies were intensifying efforts to win customer loyalty. Efforts included reward programs for frequent visitors and targeting a hotel's best customers for direct marketing programs.

The longer-term outlook for the industry seemed very positive. US demographic trends were highly favorable. Baby boomers, then in their peak earning years, would be seeking elaborate or expensive vacations. In addition, more and more Americans would be retiring and traveling in their leisure time.

The Greening of the U.S. Hotel Industry

The U.S. hotel industry with its 4.5 million rooms, common areas and lobbies, conventions, restaurants, laundry facilities and back offices have a significant environmental impact. According to the American Hotel and Lodging Association, the average hotel toilet is flushed 7 times per day per guest, an average shower is 7.5 minutes long, and 40% of bathroom lights are left on as nightlights. A typical hotel uses 218 gallons of water per day per occupied room. Energy use is pervasive, including lighting in guest rooms and common areas, heating and air-conditioning and washing and drying towels and linens. The hotel industry spends $3.7 billion per year on electricity.[2]

Guestrooms generate surprisingly large amounts of waste, ranging from one-half pound to 28 pounds per day, and averaging 2 pounds per day per guest. In California, 2% of all food waste comes from the hotel and lodging industry. A short-list of other environmental impacts of the hotel industry includes: non-refillable amenity bottles (shampoos, etc.) generate large amounts of plastic waste; products used to clean bathrooms and furniture contain synthetic additives; paints contain high levels of volatile organic compounds; back office and front desk activities generate large amounts of waste paper; and furniture, office equipment, kitchen and laundry appliances are usually not selected for their environmental advantages.

Opportunities for reducing a hotel's environmental footprint are plentiful, and many can yield bottom-line savings. Reduced laundering of linens, at customer discretion, has already been adopted enthusiastically across the spectrum of budget to luxury hotels, to the point that 38% of hotels currently have linen reuse programs. Low-flow shower heads can deliver the same quality shower experience using half the water of a conventional shower head. Faucet aerators also can cut the water requirements by 50%. A 13 watt compact fluorescent bulb gives the same light as a 60 watt incandescent, lasts about 10 times longer and uses about 70% less energy. Waste costs also can be significantly reduced. For many hotels, 50-80% of their solid waste stream is compostable, and a significant part of the remaining waste is recyclables, such as paper, aluminum and glass.

Fairmont Hotels & Resorts, a Canadian based hotel chain, generated considerable savings since implementing its environmental programs in the early 1990's. While concern for the environment drove Fairmont's program, many of its initiatives resulted in bottom line

benefits. Examples of the types of environmental initiatives and their associated savings at the Fairmont Hotels & Resorts are listed in Exhibit 3. Fairmont Hotels also pursued initiatives and made investments that did not produce readily apparent bottom line benefits. For example, one of their hotels purchased 20% of their energy as renewable energy (solar, wind and hydro) even though the cost was higher. They supported the expense of a Corporate Office of Environmental Affairs and a Manager of Environmental Affairs. They also financially supported efforts related to habitat restoration and preservation of endangered species.[3]

In addition to bottom line savings, environmental programs held the potential to generate new business. Governmental bodies and NGO's, corporations and convention/meeting planners were showing increased interest in selecting hotels using environmental criteria. California had recently launched its Green Lodging Program. State employees were encouraged to select from the GLP's list of certified hotels. The state's $70 million annual travel budget was an incentive for hotels to be certified by the program. The criteria for certification include recycling, composting, energy and water efficient fixtures and lighting, and non-toxic or less toxic alternatives for cleaning supplies. State governments in Pennsylvania, Florida, Vermont and Virginia also had developed green lodging programs.

CERES, a well respected environmental non-profit, had developed the Green Hotel Initiative, designed to increase and demonstrate demand for environmentally responsible hotel services. Some major corporations endorsed the initiative, including Ford Motor Company, General Motors, Nike, American Airlines and Coca-Cola. CERC, the Coalition for Environmentally Responsible Conventions, and the Green Meetings Industry Council were encouraging meeting planners to 'green' their events by, among other things, choosing environmentally friendly hotels for lodging and meeting sites. This trend toward booking lodging and meeting sites based on green criteria was in its very early stages. Industry insiders believed that environmentally driven demand was extremely limited at this point and the ultimate impact of this movement was uncertain.

Environmental progress in the U.S. hotel industry has been very limited. With a few exceptions, most hotels were doing very little beyond pursuing the low hanging fruit, in the form of easy-to-implement cost-saving initiatives. Those hotels have been reducing their environmental footprint as a welcome consequence of their cost-cutting efforts, but they were not necessarily committed to a comprehensive environmental program. During a 1998 effort by Cornell University's School of Hotel Administration to identify hotels employing environmental best practices, researchers were "surprised by the dearth of nominations." The four U.S. hotels selected as champions – The Colony Hotel, Hotel Bel Air, Hyatt Regency Chicago and Hyatt Regency Scottsdale – were primarily focused on cost savings in energy and waste streams.[4] In contrast to the US, hotels in Canada and Europe seemed to be embracing the hotel greening process, as exemplified by the Fairmont Hotel & Resorts effort to institutionalize innovative approaches to reducing their environmental footprint throughout their operations.

Kimpton's Business Philosophy and Strategy

Kimpton Hotels was founded in 1981 by the late Bill Kimpton, who once said, "No matter how much money people have to spend on big, fancy hotels, they're still intimidated and unsettled when they arrive. So the psychology of how you build hotels and restaurants is very important. You put a fireplace in the lobby and create a warm, friendly restaurant, and the guest will feel at home." By 2005, Kimpton had grown to include 39 hotels throughout North America and Canada, each one designed to create a unique and exceptional guest experience (see Exhibit 4). Every hotel lobby had a cozy fireplace and plush sitting area, where complementary coffee was served every morning, and wine every evening. Guest rooms were stylishly decorated and comfortably furnished, offering amenities such as specialty suites that included Tall Rooms and Yoga Rooms. Every room offered high-speed wireless internet access, and desks with ample lighting. Rather than rewarding customer loyalty with a point program, Kimpton offered customization and personalization. "We record the preferences of our loyal guests, " said Mike Depatie, Kimpton's CEO of real estate, "Someone may want a jogging magazine and a Diet Coke when they arrive. We can get that done."

Business travel (group and individual) accounted for approximately 65% of Kimpton's revenues, and leisure travel (tour group and individual) the other 35%. The selection of hotels for business meetings and conferences was through meeting and conference organizers. Around 35% of all rooms were booked through their call center, 25% through travel agents, 25% through their web site, and the remainder "came in off the street." The internet portion of their business continued to grow, but they didn't cater to buyers looking for the "steal of the century." Rather, they were increasingly being discovered by the 25% of the customer pool that market researchers called "unchained seekers," many of whom used the internet to search for unique accommodations that matched their particular needs or values.

Steve Pinetti, Senior Vice President for Sales and Marketing noted, "If I were to drive a customer to the airport after their stay and ask them what their experience was like, the right answer would be, "It felt great." They don't have to know why; it could be the bed, the room, the wine, or the friendly employees. The next time they want to book a room, though, they'll come to us." Kimpton's REVPAR tends to meet or exceed norms within its upscale segment, due primarily to its relatively high occupancy rates. Occupancy rates rose to 68% in the fourth quarter of 2004, up from 63% during the same quarter in 2003. REVPAR during the same period rose from $87 to $102.[5]

Historically, Kimpton prospered by purchasing and renovating buildings at a discount in strategic nationwide locations that were appropriate for their niche segment. The hotel industry in general had been slow to enter the boutique niche, and Kimpton enjoyed a substantial edge in experience in developing value-added services for guests. "All hotels are starting to look alike and act alike, and we are the counterpoint, the contrarians," according to Tom LaTour, Kimpton president and CEO. "We don't look like the brands, we don't act like the brands, and as the baby boomers move through the age wave, they

will seek differentiated, experience-oriented products."

Kimpton's top executives took pride in their ability to recognize and develop both undervalued properties and undervalued people. Kimpton's hotel general managers were often refugees from large branded companies who did not thrive under hierarchical, standardized corporate structures. At Kimpton, they were afforded a great deal of autonomy, subject only to the constraints of customer service standards and capital and operating budgets

This sense of autonomy and personal responsibility was conveyed down through the ranks to all 5,000 Kimpton employees. Kimpton's flexible corporate structure avoided hierarchy, preferring a circular structure where executives and employees were in constant communication.[6] Steve Pinetti liked to tell the story of a new parking attendant who had to figure out how to deal with a guest who felt that he had not been adequately informed of extra charges for parking his car at the hotel. The attendant decided on the spot to reduce the charges, and asked the front desk to make the necessary adjustments. He had heard his general manager tell everyone that they should feel empowered to take responsibility for making guests happy, but he fully expected to be grilled by his GM, at the very least, about his actions. A sense of dread took hold as he was called to the front of the room at a staff meeting the very next day, but it dissipated quickly when his general manager handed him a special award for his initiative.

Establishing the Kimpton Brand

While Kimpton was known for designing hotels that reflected the energy and personality of their distinct locations, by 2004 the company's top executives realized that uniting its hotel portfolio under a single recognizable brand could add considerable value. Cross-selling of hotel rooms in different cities, for instance, would be easier for salespeople handling corporate accounts if the properties all shared the Kimpton name. So the company launched what it called the first Lifestyle Hotel Collection, with the theme "Every Hotel Tells a Story." One aspect of the branding effort was to add the Kimpton name to each property, as in "Hotel Monaco San Francisco, a Kimpton Hotel." According to CEO LaTour, "We think of our hotels as a family, all having their own first names and sharing the last name Kimpton. We are ready to tell the world the Kimpton story."[7]

The distinctive value proposition associated with the Kimpton brand guaranteed the customer a unique and satisfying experience along five different dimensions, what the company referred to as Care, Comfort, Style, Flavor, and Fun.

- *Care*- Just as Kimpton treated its guests with a strong dose of friendly personal attention and TLC, its culture also emphasized concern and responsibility for the communities in which it did business, and the people it employed. Each hotel's GM and staff expressed this sense of care by engaging in their own forms of community

outreach, employee diversity, and environmental quality initiatives

- *Comfort* – Kimpton focused intently on making its guests feel comfortable, their plush rooms and intimate public spaces providing a home away from home. They kept overhead costs in check by limiting the range of services they provided, forgoing the gyms, spas, swimming pools, and other space-hungry amenities that larger chains regularly offered.

- *Style* – No two Kimpton hotels were alike. Each attempted to draw upon the distinctive character of the city and neighborhood in which it was located. Interiors tended to be upscale and stylish rather than opulent or ornate.

- *Flavor* – The restaurants located in each hotel were designed to stand on their own, catering to local clientele rather than rely on hotel guests for the bulk of their business.

- *Fun* – Employees were encouraged to bring their personalities to work, and to make sure that guests enjoyed their stay. According to Mike Depatie, "We don't try to make people Kimpton people. We want them to express the best of what they are."

An important part of Kimpton's story was its longstanding commitment to social responsibility. Staff at each hotel had always been encouraged to engage with local community non-profits that benefited the arts, education, the underprivileged and other charitable causes. Kimpton maintained these local programs even in periods of falling occupancy rates and industry downturns. These local efforts evolved into the company-wide "Kimpton Cares" program in 2004, as part of the company's corporate branding effort, expanding their social and environmental commitments to the national and global arenas. At the national level, Kimpton supported the National AIDS Fund (in support of its Red Ribbon Campaign) and Dress for Success (which assisted economically disadvantaged women struggling to enter the work force) by allotting a share of a guest's room fee to the charity. At the global level, Kimpton embarked in a partnership with Trust for Public Land (TPL), a non-profit dedicated to the preservation of land for public use. In July 2005, Kimpton committed to raising $15,000 from its total room revenues to introduce the TPL Parks for People program, and created eco-related fund raising events in each of its cities to further support the campaign. Kimpton's EarthCare program was designed to be instituted through a comprehensive environmental program rolled out to all of Kimpton's hotels. "As business leaders, we believe we have a responsibility to positively impact the communities we live in, to be conscious about our environment and to make a difference where we can," says Niki Leondakis, Kimpton's Chief Operating Officer.

Kimpton's top executives consider the "Kimpton Cares" program, and its Earthcare component, essential parts of the company's branding effort. Steve Pinetti noted, "What drove it was our belief that our brand needs to stand for something. What do we want to

stand for in the community? We want to draw a line in the sand. We also want our impact to be felt as far and wide as it can. Hopefully, through our good deeds, we'll be able to influence other companies."

The early evidence suggested that the branding effort also had financial payoffs. Kimpton was receiving significant PR coverage of its Earthcare program in local newspapers and travel publications. According to Pinetti, "The number of people who visit our Kimpton web site has tripled in the year since we began the branding effort. Membership in the company's 'InTouch' guest loyalty program, which markets to previous guests via email, rose from 86,000 in the 1st quarter of 2004 to 112,000 in the 4th quarter.[8] Consumer surveys showed big gains in awareness that each hotel is part of a bigger organization, with properties in other cities." As for the firm's "Kimpton Cares" program and its new EarthCare initiative, anecdotal evidence pointed to top line benefits. "We've booked almost half a million dollars in meetings from a couple of corporations in Chicago because of our ecological reputation," said Pinetti. "Their reps basically told us, 'Your values align with our values, and we want to spend money on hotels that think the way we do.'" Kimpton believed that companies that identified with being socially responsible would look for partners like Kimpton that shared those values; and that certifications like the California Green Lodging program would attract both individuals and corporate clientele.

However, Pinetti noted, "The cost-effectiveness wasn't clear when we started. I thought we might get some business out of this, but that's not why we did it. We think it's the right thing to do, and it generates a lot of enthusiasm among our employees." Kimpton's Real Estate CEO Mike Depatie believed that incorporating care for communities and the environment into the company's brand has been a boon to hiring. "We attract and keep employees because they feel that from a values standpoint, we have a corporate culture and value system that's consistent with theirs. They feel passionate about working here." While the hotel industry was plagued with high turnover, Kimpton's turnover rates were lower than the national averages.

The Hotel Triton

Kimpton's environmental consciousness reaches back to 1985 when they introduced the Galleria Park Hotel in San Francisco as an urban retreat with an open space " park" within the hotel. In 1995, Kimpton 's commitment picked up steam as they converted an entire floor of the 140-room Triton hotel in San Francisco into an 'eco-floor'. With assistance from Green Suites International, a supplier of environmental solutions for the lodging industry, the Triton introduced the following initiatives in the 24 rooms on its eco-floor:

- Energy efficient lighting solutions including compact fluorescent bulbs and sensor nightlights (cutting energy costs by 75%).
- Bathroom amenity dispensers using biodegradable hypoallergenic soaps, lotions and shampoos.
- Programmable digital thermostats to control guestroom energy consumption.

- Low-flow/high pressure showerheads and sink aerators, and toilets that reduce water use.
- Linen and towel reuse program.
- Non-toxic, non-allergenic, all natural cleaning products.
- Facial and bathroom tissues made from 100% recycled materials with at least 30% post-consumer waste paper.
- Recycling receptacles.
- Bedding and bath towels made from organically grown cotton (1.5 pounds of agricultural chemicals are used on average to produce the conventionally grown cotton in a single set of queen-size sheets).
- Water filters to improve water quality and air filters to improve air quality.
- Low VOC paints used to paint walls and ceilings.

For Michael Pace, the sustainability light bulb came on when he was general manager of the Monticello Hotel, prior to taking over as GM of the Triton. At first, his interest was piqued by recycling efforts at the Monticello. But one day, he says, "I had a personal epiphany, where I realized how lucky I am. I'm living the American Dream, and I pass by a dozen homeless people on my way to work every day. I just realized that I wanted to do more than focus on myself and my job. The more I got involved, the more I saw the positive impact these efforts could have."

When Pace became GM of the Triton in 2003, he felt that the eco-floor concept should be expanded throughout the Triton hotel's rooms and common areas. He immediately began to institute most of the eco-floor initiatives in the hotel's other guestrooms. He worked closely with the hotel staff to sort the hotel's entire waste stream, and was able to reduce waste hauling expenses from $2200 to $600 per month.

As a result of Pace's conversion efforts, in 1994, the Triton was recognized as one of four properties in Northern California to qualify at the Leadership Level for the State's new Green Lodging program. More importantly, the Triton was ready to serve as the template for the EarthCare program and the rest of Kimpton's hotels.

Planning the EarthCare Program Rollout Campaign

Pinetti and Pace realized that they were too busy to handle all the planning and operational details of the national rollout, so they turned to Jeff Slye, of Business Evolution Consulting, for help. Slye was a process management consultant who wanted to help small and medium-sized business owners figure out how to "ecofy" their companies. He knew that entrepreneurs were typically far too busy to do much about the resources they don't like to overuse, and the waste they don't like to generate. He had heard that Kimpton was trying to figure out how to make its operations greener and integrate this effort into their branding effort. When they first met in October 2004, Pinetti and Pace handed him a 10-page document detailing their objectives and a plan for

rolling out the initiative in phases. Kimpton's program was to have the following eco-mission statement:

> *Lead the hospitality industry in supporting a sustainable world by continuing to deliver a premium guest experience through non-intrusive, high quality, eco-friendly products and services.*
>
> *Our mission is built upon a company wide commitment towards water conservation; reduction of energy usage; elimination of harmful toxins and pollutants; recycling of all reusable waste; building and furnishing hotels with sustainable materials; and purchasing goods and services that directly support these principles.*

Slye worked with Pinetti and Pace to fill various gaps in their plan and develop an "ecostandards program," a concise report outlining a strategy for greening the products and operational processes that Kimpton used to deliver a superior experience to its guests. In December 2004, Pinetti asked Slye to present the report to Kimpton's COO, Niki Leondakis. Leondakis greeted the proposal enthusiastically, but noted that it needed an additional component: A strategy for communicating the program both internally (to management and staff) and externally (to guests, investors, and the press). As important as these external audiences were, Slye knew that the internal communications strategy would be particularly crucial, given the autonomy afforded each Kimpton hotel, each with its own set of local initiatives. Getting everyone on board would require a strategy that respected that aspect of Kimpton's culture. Slye kept that in mind as he worked with Pace to draft a communications strategy.

They decided to create an *ad hoc* "eco-champions" network throughout the company. The national "lead" (Pace) and "co-lead" (Pinetti) would head up the communications effort, and would be accountable for its success. Each of five geographic regions (Pacific Northwest, San Francisco Bay Area, Central U.S., Washington D.C., and Northeast/Southeast), covering six or seven hotel properties, would also have a lead and co-lead who would help communicate the program to employees, and be the local point-person in the chain of command. One of their key roles would be to solicit employee suggestions regarding ways to make products and processes greener.

In addition, a team of national eco-product specialists (EPS) would be key components of the network. These specialists would be responsible for soliciting staff input, and identifying and evaluating greener products as potential substitutes for existing ones. Products would be tested for effectiveness and evaluated on the basis of their environmental benefits, effect on guest perceptions, potential marketing value, and cost. Pinetti and Pace determined that specialists would be needed initially for six product categories: Beverages, cleaning agents, office supplies, engineering, information technology, and room supplies.

Pinetti and Pace knew that the various regional leads and national product specialists would have to be selected carefully. The program's success would depend largely on the

enthusiasm and capability that team members would bring to the task. They faced a dilemma: Ask for volunteers, or handpick preferred candidates? They decided to identify likely candidates and invite them to participate, an approach made possible by Kimpton's tractable size and intimate culture. As they anticipated, everyone they approached responded enthusiastically and volunteered on the spot.

Meanwhile, Pace and Pinetti asked all general managers to report on their existing environmental initiatives, to get baseline feedback on what individual hotels were doing already. They turned the results into a matrix they could use to identify gaps and monitor progress for each hotel.

They also sent out to all Kimpton Directors of Operations (regional managers) a briefing that laid out the communications strategy, including the mission statement, a description of the new eco-champions network, an overview of the phased rollout of products and processes (See Exhibit 5), and a "talking points" document that explained to employees the benefits of the new program (See Exhibit 6).

National Rollout of the EarthCare program

By February 2005, the new network of eco-champions was in place, and everyone had agreed on the two basic ground rules for the transition: New initiatives couldn't cost more than what was already budgeted for operations and capital improvements, and they couldn't adversely affect customer perceptions or satisfaction. This ground rule mandated that any new product or service could not cost more than the product or service it replaced. All leads, co-leads, and product specialists began meeting via conference call every Friday morning to discuss the greening initiative, and share accounts of employee suggestions, progress achieved and barriers encountered. One revelation that emerged early in the process was that, due to the uniqueness of each hotel and autonomous nature of the organization, all plans and proposals would have to be presented in a clear, concise package in order to ensure effective implementation.

To help communicate the program's goals and achievements, and help motivate employees seeking recognition, the team began to post regular updates and success stories in Kimpton's internal weekly newsletter, *The Word*, which was distributed throughout the organization and read by all GMs. They also ran an EarthCare contest to further galvanize interest, which generated over 70 entries for categories such as "Best Eco-Practice Suggestion," "Most EarthCare Best Practices Adopted," and "Best Art and Humor Depicting EarthCare."

Potential benefits of the program became clear when the team of eco-product specialists began researching the availability of non-toxic cleaning agents. Common cleaning products such as furniture polish, carpet cleaner, spot remover, air fresheners, disinfectants and bleach can contain hazardous compounds such as toluene, naphthalene, trichloroethylene, benzene and nitrobenzene, phenol, chlorine, and xylene. These and other hazardous ingredients found in many cleaning products are associated with human

health concerns including cancer, reproductive disorders, respiratory ailments, and eye or skin irritation. An EPA-funded study by the Western Regional Pollution Prevention Network found that 41% of all standard cleaning products they tested were potentially hazardous to the health of individuals using them. Cleaning chemicals may also include ozone-depleting substances, and toxic materials that can accumulate in the environment and harm plant and animal life. The health and environmental consequences for Kimpton were substantial, as one of its suppliers (Sierra Environmental) estimated that every housekeeping worker handles 60 lbs of cleaning agents per year. With an average of 15 room cleaners, times 39 hotels, it adds up.

The eco-specialists learned that one of Kimpton's incumbent vendors did have a Green Seal certified non-toxic line, but the products were selling at a 10-15% premium over standard products. They discovered that virtually every product they were interested in was more expensive than those currently used. At the extreme, eco-friendly paper products were priced 50% above standard products.

They knew that this would not satisfy the imperative that the greening initiative should not increase operating costs. Determined, they just kept going back to the vendors and asking them to keep working on it until they could supply a greener product of the same quality at the same, or lower, price. Eventually, existing or new vendors were able to meet these criteria, and now the typical hotel uses eco-friendly products such as organic coffee and tea, air fresheners, and cleaning agents at no extra cost, and saves thousands of dollars a month by recycling waste materials that were previously shipped to landfills.

By 2005, the internet had become a popular supply channel, with BuyEfficent.com emerging as the major online catalog from which hotels purchase their products. Assisting the eco-product specialists, consultant Jeff Slye discovered that it could be a nightmare getting the web site to add new eco-vendors, and more than once had to personally obtain and supply vendor and product codes in order to purchase greener products through the site. While efforts such as these are time consuming, part of the long-term payoff for the company and its eco-champions is knowing that they've made it easier for the entire industry to follow in their footsteps.

The team of eco-champions also quickly learned that the national roll-out effort would have its share of potential operational risks and challenges, which would need to be addressed. Among them:

- *Potential resistance by GMs to centralized imperatives* - Kimpton's culture of uniqueness and autonomy might be threatened by a green management program mandated by corporate headquarters. GM's might chafe at what they see as corporate intrusion upon their autonomy. They may see it as just the first step in a trend that will ultimately lead to centralization of the firm as a result of its rebranding effort. Local vendors and distributors may not offer green products. Search and acquisition costs may increase if GMs have to work with a broader range of vendors.

- *Potential resistance by hotel staff to new products and procedures* - Kimpton's relatively low turnover meant that some employees had been working there for many years, and had become accustomed to familiar ways of doing things (Informal queries by management, for example, revealed that many cleaning staff equate strong chemical odors with cleanliness.) Also, many of the service staff do not speak English fluently, and may have difficulty understanding and accepting management's rationales for switching to new procedures or greener cleaning products.

- *Investments might have slower payback period, lower rate of return, intangible benefits* - Unless informed, guests will not be aware that their rooms have been painted with low-VOC paints. Likewise, organic cottons are not likely to feel or look superior to traditional materials. The gains in operating costs achieved by installing longer-life and more energy-efficient fluorescent lighting can take years to pay off, while higher acquisition costs can inflate short-term expenses. The same logic applies to water conservation investments. Will GMs be around to enjoy the benefits? Will corporate executives and investors be patient? What if consumer tastes or Kimpton's branding strategies change before investments have paid off?

- *For some products being considered in Phase II, required investments might exceed existing budgets or fail to meet the cost parity criterion*-Linens and towels made from organic cotton could cost at least 50% more than the cost of conventional products and, the initial cost of converting an average Kimpton hotel to organic cotton linens would run between $100-150, 000. Other environmentally friendly products such as environmentally friendly carpeting and draperies and sustainable flooring would have a price premium. Will additional budget be provided? Will savings in other areas be allowed to pay for it?

- *Marketing the program can be challenging* - How should the EarthCare program be promoted, given customer concerns regarding the impact of some environmental initiatives on the quality of their guest experience? Guests might be concerned, for example, whether low-flow shower heads or fluorescent lighting will meet their expectations. Environmental awareness and concern varies considerably by geographic region, from very high on the West Coast and in the Northeast, to considerably lower in the South and Midwest. Will this affect customer perceptions and demand? Will the program affect the quality rating of Kimpton's hotels? According to the American Automobile Association's Diamond Rating Guidelines, some water saving shower heads and energy-saving light bulbs could lower a hotel's diamond rating.[9] Eventually, information about the Earthcare program was to be disseminated through their web-site, guest directory and sales brochures that would go to travel agents, corporate travel planners and meeting planners. Should the program be marketed more aggressively?

- *Regional differences in recycling infrastructure and regulatory environment* - California had a mandated recycling program requiring 70% recycling of solid waste by 2007, so San Francisco's disposal service provided free recycling containers. Other localities may not be so generous.

Even in the face of these challenges, Kimpton executives believed that the EarthCare program was the smart, as well as the "right," thing to do. According to Tom LaTour, Chairman and CEO:

> "It's good business. It's not just because we're altruistic, it's good for business. Otherwise the investors would say, what are you guys doing? A lot of people think it's going to cost more. It's actually advantageous to be eco-friendly than not."

Niki Leondakis, COO, saw the program's impact on marketing and employee retention:

> "Many people say we're heading toward a tipping point: If you're not environmentally conscious, your company will be blackballed from people's choices. Also, employees today want to come to work every day not just for the paycheck but to feel good about what they're doing…It's very important to them to be aligned with the values of the people they work for, so from the employee retention standpoint, this helps us retain and attract them so we can select from the best and the brightest." [10]

Investors appear to be happy with Kimpton's efforts to manage their properties in a more sustainable manner, as the firm announced a new round of financing in June of 2005. Private investors poured $157 million into the company for a new wave of expansion and renovation. Yale University put up most of the funds, making an investment valued at close to 1% of its $12.7 billion endowment.

By July 2005, Phase I of the EarthCare initiative had been successfully implemented at all Kimpton hotels. The percentage of waste materials recycled at its hotels in San Francisco had gone from 10-20% to over 50% (by volume) since the program's inception. Chemical cleaning agents were no longer used in any of Kimpton's hotel rooms. Every hotel served organic coffee in its lobby, and printed promotional materials on recycled paper with soy-based ink. The challenges of Phase II lay ahead.

Questions for discussion:

1. Explore whether there is a 'business case' for Kimpton's environmental sustainability initiative, its EarthCare program:

    a. What are the costs and benefits associated with the EarthCare program?
    b. Based on these costs and benefits, how might you justify the program to investors?
    c. Is it necessary for there to be a 'business case' to justify implementation of the EarthCare program?

2. In your opinion, does Kimpton's EarthCare program involve any potential risks to their business model? For example, could the eco-initiative adversely affect customer perceptions, general manager autonomy, or costs?

3. To what extent does the EarthCare program have marketing value? Would you actively promote the program? If so, how? If EarthCare lost its marketing value would you continue it?

4. How would you measure the success of the EarthCare program?

5. Would you require each potential product to stand on its own, meeting the criteria that it cost no more than existing products? Or should the greening program be treated as a whole, with some products allowed to exceed existing costs as long as the entire program is "cost-neutral." What are some advantages or disadvantages of each approach?

6. How would you "institutionalize" Kimpton's environmental sustainability initiative? If Michael Pace or other key personnel leave Kimpton's or are unable to devote their time and enthusiasm, would the program continue? How could the company keep it from eventually losing steam?

7. What do you see as the primary challenges in implementing Phase II and III? How would you address those challenges?

EXHIBIT 1

Hotel And Lodging Industry Trends

Year	2000	2001	2002	2003	2004
Room Rates	$85.43	$85.35	$83.48	$83.41	$86.70
Revenue per Available Room	$55.78	$52.83	$50.84	$50.71	$54.70
Occupancy	65.3%	61.9%	60.9%	60.8%	63.1%
Income (pre-tax)	$22.5m	$16.2	$14.2	$12.8	$14.5

Source: Smith Travel Research

EXHIBIT 2

Large Hotel Companies

(Based on number of affiliated rooms worldwide)

COMPANY	**MAJOR CHAINS**	**NO. OF PROPERTIES**	***NO. OF ROOMS***
Cendant Corp.	Days Inn, Ramada (US), Super 8, Howard Johnson, Travel Lodge	6,399	518,435
InterContinental Hotels Group	Holiday Inn, Inter-Continental	3,500	538,000
Marriott International	Marriott, Courtyard Residence Inn, Fairfield Inn,Renaissance, Ramada (outside US)	2,753	496,920
Arcor SA	Motel 6, Mercure, Ibis, Novotel, Red Roof Inns, Hotel Sofitel, Formule 1	3,950	455,000
Choice Hotels Int'l	Comfort Inn, Quality Inn, Econo Lodge	4,678	375,859
Hilton Hotels	Hilton (US), Hampton Inns, Doubletree, Embassy Suites, Homewood Suites	2,157	345,141
Best Western Int'l	Best Western	4,105	312,329
Starwood Hotels & Resorts	Sheraton, Westin	736	227,815
Carlson Hospitality Group	Radisson, Country Inns & Suites by Carlson, Regent International Hotels	885	147,000
Hyatt Corp.	Hyatt Regency	121	59,000
TOTAL		29,494	3,498,423

Source: Standard & Poors Industry Surveys, Lodging & Gaming, McGraw Hill, December 2004

EXHIBIT 3

Fairmont Hotels & Resorts
Sampling of Environmental Cost Saving Initiatives

- The Fairmont Royal York Hotel in Toronto recycles over 212,000 pounds of cardboard and paper annually, saving 2,025 trees and $79,000 in landfill fees.

- Prior to establishing a recycling program for kitchen grease, the Fairmont Winnepeg spent over $1 million to have its sewer system cleared of kitchen grease build up. Kitchen grease is now picked up and recycled free of charge.

- The breakfast buffet at Fairmont Tremblant eliminated individual servings of jams in 22 ml glass jars. Instead, the kitchen prepares seven varieties of homemade jams and serves them in large attractive jars with serving spoons. With over 49,500 breakfasts served a year, the restaurant saved over $19,000 per year.

- The Fairmont Royal York has over 34,000 light fixtures. The hotel switched 1,920 bulbs in the guest bathrooms and 5,500 bulbs in the guestrooms from incandescent to compact fluorescent bulbs, saving $57,135 annually. In public areas and staircases, over 773 bulbs have been switched with additional savings of $23,095 per year.

- The staff at the Fairmont Hotel Vancouver separates organic waste (from room service, meetings, and conference meals) from its regular waste stream. The organic waste is picked up from the hotel (free of charge) and used to make a rich organic fertilizer. This produced a 50% reduction in landfill wastes and an annuals savings of $11,000.

Source: Fairmont Hotels & Resorts, The Green Partnership Guide, 2nd ed., 2001.

EXHIBIT 4: List of Kimpton Hotels

City, State	Style/Theme	Room	Year
Aspen, Colorado			
▪ Sky Hotel	Play & Action	90	2001
Boston, Massachusetts			
▪ Onyx Hotel	Emerging Art	112	2004
Cambridge, Massachusetts			
▪ Hotel Marlowe	Discovery	236	2003
Chicago, Illinois			
▪ Hotel Allegro Chicago	Be a Star	483	1998
▪ Hotel Monaco Chicago	Indulge Your Senses via Body, Mind & Soul	192	1998
▪ Burnham Hotel	Architecture	122	1999
Cupertino, California			
▪ Cypress Hotel	Good Life: Body, Mind & Soul	224	2002
Denver, Colorado			
▪ Hotel Monaco Denver	Adventure	189	1998
Miami			
▪ Mayfair Hotel & Spa	Tranquility and Sensuality	179	2005
New Orleans, Louisiana			
▪ Hotel Monaco New Orleans	Indulge Your Senses via Exotic Pleasures	250	2001
New York, New York			
▪ 70 Park Avenue Hotel	Private Residence	205	2004
Portland, Oregon			
▪ Hotel Vintage Plaza	Italian Romance	107	1992
▪ Fifth Avenue Suites Hotel	Patron of the Arts	221	1996
Salt Lake City			
▪ Hotel Monaco Salt Lake City	Indulge Your Senses via Guilty Pleasures	225	1999
San Diego, California			
▪ Solamar	Art Lies Within	235	2005
San Francisco, California			
▪ Villa Florence Hotel	Celebration of Italy	183	1986
▪ Monticello Inn	Literary	91	1987
▪ Prescott Hotel	Private Residence	164	1989
▪ Tuscan Inn	Family	221	1990
▪ Harbor Court Hotel	Energy & Well-being	131	1991

▪ Hotel Triton	Art, Music and Eco	140	1991
▪ Sir Francis Drake Hotel	Classic San Francisco	417	1994
▪ Hotel Monaco San Francisco	Sophisticated World Travel	201	1995
▪ Serrano Hotel	Fun & Games	236	1999
▪ Palomar Hotel	Art in Motion	198	1999
▪ Argonaut Hotel	Adventure	252	2003
Seattle, Washington			
▪ Alexis Hotel	Art of Living	109	1992
▪ Hotel Vintage Park	Washington Wine	126	1992
▪ Hotel Monaco Seattle	Animals	189	1997
Tacoma, Washington			
▪ Sheraton Tacoma Hotel	Business, conference center	319	1984
Vancouver, B.C.			
▪ Pacific Palisades	Fun, Fresh and in the Now	233	2000
Washington, D.C.			
▪ Hotel Rouge	Playful Interactions	137	2001
▪ Topaz Hotel	Wellness	99	2001
▪ Hotel Monaco DC	Indulge Your Senses	184	2002
▪ Hotel Madera	Home Away From Home	86	2002
▪ Hotel Helix	Your 15 minutes	178	2002
▪ Hotel George	George Washington w/contemporary flair	139	2003
Whistler, B.C.			
▪ Summit Lodge	Romance, premier ski resort	81	2000

EXHIBIT 5
Rollout of Kimpton's EarthCare Program

Phase I:

Phase I initiatives are designed to make hotel staff comfortable with the concept of greener management by introducing non-disruptive and cost-reducing operational practices.

- Recycling program ("Back of house") – Bottles, cans, paper, cardboard.
- Cleaning chemicals – Tub & tile cleaners, glass cleaners, deoderizers, and disinfectants all have to be switched to non-toxic, natural products.
- Promotional materials printed on recycled paper, using soy-based inks.
- Complimentary coffee served in lobbies every morning must be organically grown.
- Towel/linen reuse – Sheets and towels are replaced only at guest's request.

Phase II:

Hotels that successfully complete their implementation of Phase I initiatives will then move to Phase II, which focuses on investments in water and energy conservation, organically-grown cottons, and extending Phase I initiatives.

- Water conservation – Install 2.0 GPM sink aerators, 2.5 GPM showerheads, and phase in 1.6 GPF toilets.
- Energy conservation – Install motion sensors in rooms, fluorescent bulbs in corridors and back-of-house.
- Use recycled content paper for copying and notepads back-of-house, toilet paper and tissues in-room.
- Serve organic coffee in rooms and meeting rooms, organic tea in lobby.
- Switch to organic linens and towels, if feasible.

Phase III:

The most fundamental changes are anticipated when hotels are renovated and new hotels are acquired and converted. In addition to implementing Phases I and II, this will require extensive investment in building materials, labor, and appliances. The good news is that rooms can be designed, rather than retrofitted, to be more energy efficient, and green building materials can be ordered in larger quantities, thus lowering costs.

- Install only Energy Star rated appliances, computers, and electronic.
- Use only low-VOC paints.
- Install energy efficient lighting, heating, and air conditioning.

EXHIBIT 6

Internal Talking Points Document

QUICK FACTS ON THE DIFFERENCE YOU WILL MAKE…

Printing on 35% post consumer recycled paper: Kimpton will save:
- 24,000 pounds (12 Tons) of wood
- 3,720 pounds (1.75 Tons) of solid waste
- 7,260 pounds (3.6 Tons) of CO2 emissions
- 58,230,000 BTUs of total energy

** Assumes 30 Hotels participate using 1 case/5,000 sheets per month

Using Green/Eco friendly cleaning products: Kimpton will:
- Improve worker productivity by between 0.5 percent and 5 percent by reducing cleaning supply toxins (U.S. institutions spend more than $75 million a year on medical expenses and lost time wages due to chemical-related injuries).
- Reduce environmental pollution as traditional cleaning products are responsible for approximately 8% of total non-vehicular emissions of volatile organic compounds (VOCs).

Recycling waste: Recycling 50% of hotel waste Kimpton properties will:
- Save over $250,000 per year in waste disposal costs.
- Reduce unnecessary landfill waste by over 100,000 gallons per year.

** Assumes 30 Hotel participate

Recycling glass: Recycling 100 glass bottles/month, Kimpton will:
- Save the equivalent of powering one hundred 100-watt light bulbs for 1,440 hours (60 days).

Recycling aluminum: Recycling 20 Aluminum cans/day, Kimpton will:
- Save the equivalent of nearly 1,500 gallons of gas-enough to run a car for nearly three years.

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