

## July, 2005

# Talking About Performance-Driven Culture with Choice Hotels' Charles A. Ledsinger Jr.

Chuck Ledsinger has headed Choice Hotels International since 1998. He has taken Choice forward successfully and profitably in an industry market segment that is among the toughest and most competitive in the business—at a time when the hotel sector has had its most volatile period.

In June, Ledsinger was honored by *Lodging Hospitality* magazine as winner of the Stephen W. Brener Silver Plate Award. For good reason.

In this candid, upfront interview with Melinda Bush, Ledsinger sets forth his criteria for corporate success in a challenging economic environment.

**Q. Melinda Bush:** The lodging industry in general is experiencing a major comeback. Everyone is talking in positive terms. Do you see any pitfalls or is the economy coming back so strong that hotels are going to have a windfall such as we saw in the late '90s and 2000?

**A. Charles Ledsinger:** Yes, those are the predictions, profitability-wise. Last year was a good year for RevPAR. Profitability was up, but not up as much as RevPAR for a lot of properties because during the last few years RevPAR was flatter but expenses kept growing. And you have some catch-up on the profitability side. This year we will see another nice RevPAR increase. Then we probably will start to see hotels return to the levels of profitability they had in 2000, the high water mark for much of the industry. The other key factor is location. The bigger cities are back. New York is back big-time.

In our segment we have seen the same kind of thing. We did not have the same RevPAR shortfalls as some of the bigger markets. Most of our hotels are smaller—about 70-percent leisure travel—so they were not as affected by the fly-in market or a big downturn in the business sector.

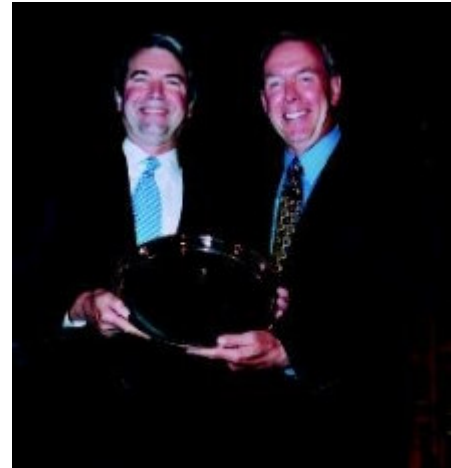
We are seeing business coming back, which is firming up pricing. That helps profitability and attracts new supply, the next thing that will be happening. We have had nice, moderate supply increases overall and I think we will start to see supply additions grow fairly strong, with new construction picking up this year and in '06. That is good news for us as a franchisor.

**Q. Bush:** Isn't the franchise sector getting crowded? How does Choice remain competitive? Every time we turn around yet another brand is introduced.

**A. Ledsinger:** People pick franchises for the brands and brand equity. Big systems deliver more rooms and more room nights.

You could have a destination market and a fantastic independent property that is well-located and may not need a flag affiliation. But if you are a smaller operator, as most of our owners are, you are looking for the comfort that comes with the affiliation with the large brand. With that you get national marketing programs, field support, state-of-the-art technology and a lot of help.

So that is why people affiliate from independents to a franchise. They come to us because they like our brands and the way we conduct our business. And they like what our company stands for, which is a little different from some others. We have 5,000 properties worldwide, so we can generate a lot of economies. And that is obviously an advantage to our franchisees.



Choice Hotels President and CEO Charles Ledsinger (left) receives the Silver Plate award from *Lodging Hospitality* Publisher Gary Dietz.

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Firm: Choice Hotels International, Inc.  
NYSE: CHH

Share price: \$64.01 as of 7-7-05

Number of Properties: 5,000

Size: Fourth-largest in the global hotel industry

Brands: Comfort Inn, Comfort Suites, Quality Inn, Sleep Inn, Clarion, MainStay Suites, Econo Lodge, Rodeway Inn, Cambria Suites

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**Q. Bush:** How do you differentiate Choice outside of size and scale?

**A. Ledsinger:** How, then, do we use our size to make us more appealing to a franchisee and then ultimately to their guests? Our focus has been to realize that our franchisee is our primary customer. If we take care of our franchisee, the guest is going to be happy, too. So we built a franchisee success system around what makes an operator want to affiliate with us. With our vision we built a strategy that has at its base one critical focus: that the core to our success is a franchise system based on customer profitability and, with that, franchisee profitability.

Our vision is to have the highest return on investment of any hotel franchise. This means Choice will deliver top line business, but we're also going to be careful about what costs we inflict on our franchisees and we are going to be certain those costs have a payback for them. If you are an owner, that really resonates. It is a key to our success.

There must be a balance between the parent company's success and the success of the franchisees. We put a lot of programs in place to make sure that happens. We do all kinds of feedback, benchmarking and surveys every year to emphasize the highest-value programs for the franchisees and see how we can improve.

At Choice, there is a very focused, performance-based culture driven by the success of our franchisees. And we have been very successful. We had our biggest development year last year, with more than 550 new franchise contracts.

Our field service organization is exceptional. These experts do a great job coaching our franchisees. And our franchisees feel pretty good about the company, so we get a lot of repeat customers from our existing franchise base.

A new, potential Choice customer who calls around is going to get pretty good—if not excellent—reviews. Our franchisees understand we focus on their profitability.

**Q. Bush:** Let's talk about your new introduction in the market, Cambria Suites. Why now? Why this brand?

**A. Ledsinger:** With Cambria Suites, we wanted an all-suite product at a higher price point than our other brands. We felt we were missing opportunities with franchisees who may have a site that is more expensive, so they needed a product that could drive higher rates. We also knew it was a great niche in the upscale segment. I wanted a higher price point product because I like the idea of being able to control the quality from day one. We can do that with Cambria Suites, and we are off to a great start. We have lots of interest in it.

**Q. Bush:** How many Cambria Suites do you see going in the ground in the next two years?

**A. Ledsinger:** As of mid-May, we had four executed contracts and more than two dozen in the active pipeline. We have great momentum, with the first expected to open in Savannah, GA in late 2006. Once we get a few up and going, I think they will do exceptionally well. The momentum will continue to build.

**Q. Bush:** How are you protecting current Choice brands as you launch new ones?

**A. Ledsinger:** The price point on Cambria Suites will be a good \$25 higher in ADR than anything else we have, so it's really not going to compete with any of our other brands.

All the other Choice brands are in continual improvement. A couple of them, specifically Comfort Inn, are in the middle of reimagining. You will start to see those new sign Comfort Inns this year, along with some new amenities, a more consistent breakfast program and more to follow. We are going to continue to focus on Comfort Inn as a very important and vital brand.

We have new prototypes for many of our brands— Comfort Inn, Comfort Suites, Econo Lodge. We spend a lot of time on brand standards and on where we want these brands positioned for the future. That is the biggest challenge with this market segment: the brands. You have got to keep them moving forward. When you are a franchisor, it's even more important.

**Q. Bush:** If a company is succeeding, it's because the CEO has aligned his forces and everyone is marching in the right direction. If it's not succeeding, it also shows at the top. How do you set the pace for your company? What is your personal leadership style that makes it come together?

**A. Ledsinger:** I'm a big believer in honesty and integrity and in building trust. I think that is essential, in a franchising company particularly. So I spent a lot of time early on trying to set the strategy. What did we have and how could we make it more successful? Where had our success been in the past, and how could we replicate that or accelerate it into the future?

I also wanted to create a new company culture. In my mind, four things count. The first is personal character and integrity. When you demonstrate that, people say, "Hey, this is the way this guy is." And if they are working for you, they are going to act more like you, and if you are a customer, you will say, "I believe what this guy says." It is extremely important that you set that example.

The second is leading through serving. You can't have a big ego. You have to be approachable in any type of a service industry. You need to be an active listener and a regular guy, not up on some pedestal. It makes people more comfortable. They will tell you things they would not otherwise. They open up to you.

The third is diversity. We are really pushing hard on the diversity side of our business. We always have. That is something you really have to work at. We have a very diverse franchisee base and customer base. So I want to have a diverse organization here.

The fourth is building trust and setting values in business. Those softer kinds of things are incredibly important in building culture in a company. We have a very engaged group of employees. We do engagement surveys each year. The results are off the charts, which makes me proud.

People are happy to work here. They feel like they are making a real contribution, they are excited about coming to work and they want to invest in their company. The same principles apply to our franchisees.

**Q. Bush:** It seems franchisees and owners are getting very demanding and sometimes hostile toward their brands. And for good reason.

**A. Ledsinger:** If franchisees feel what you are doing is in their best interest and that you are listening to them, you will not have that kind of a problem. The problem comes when they feel they are being told what to do or are last in line with a company that has other motives. You can never take the franchisee or customer for granted. A corporate arrogance can creep into this business. You have to be really observant to not let that happen. Nobody has the right answer necessarily at the top, so you have to do active listening with your franchisees.

**Q. Bush:** How's Choice doing?

**A. Ledsinger:** Choice has never been better. We've had spectacular financial success over the last five years. I think it will continue to get better. It is a great business model. I think we understand how to make it work. We also understand what we need to do to continue that into the future. Brand improvement is our big focus. Our brands are going to have to continue to improve, and we are going to be pushing hard over the next few years to see that they do. And in terms of guest satisfaction, we have the tools to talk to our guests after they stay in our hotels and understand where things are working and where they are not. This will be a big part of our product improvement going forward.

Melinda Bush, C.H.A., is president and chief executive officer of Hospitality Resources Worldwide, management and market development advisors to hotels and resorts. She serves on boards of several private and public companies and was named Outstanding Woman of the Year by the Travel Industry Association of America.

