Chapter 4
A Model of Innovative, Social and Sustainable Entrepreneurship Under the Roof of the World

Mariella C. Remund, An Hong, and Marta Peris-Ortiz

Abstract The objective of the case is to illustrate how the private initiative of an entrepreneur in the Chinese provinces of Yunnan and Tibet can become a model of cultural, social, sustainable entrepreneurship, which creates value for the organization and its environment, and how such a model can be replicated and reproduced in different environments. Cultural, social and sustainable entrepreneurship is the object of numerous publications, and the focus of an increasing global interest from academic settings and society. A secondary research effort shows that the current literature does not report examples or cases of this comprehensive entrepreneurship applied in the Tibetan region, under extreme climatic challenges. The findings of the case are based on literature search, personal interviews in Lhasa, Tibet and direct observation by the authors. The study-visit in Lhasa was followed by an in-depth questionnaire with the objective of identifying to what extent the model could be reproduced in different cultural environments and countries. The case identifies empirical approaches and universal building blocks for social and sustainable entrepreneurship. It provides a road map for creating a sustainable business ecosystem useful for entrepreneurs. This case gives a broad view of a successful and innovative approach to social entrepreneurship; it shows that an entrepreneur new to the hospitality market segment, by applying fresh approaches and thinking to a mature, established market, can create added value for the organization and the community. The case contributes to the literature on the application of innovative entrepreneurship from an industry outsider and under extreme climatic conditions.

M. C. Remund
CETYS University, Mexicali, Baja California, Mexico
e-mail: mariella.remund@cetys.mx

A. Hong
Songtsam Group, Beijing, China

M. Peris-Ortiz (✉)
Departamento de Organización de Empresas, Universitat Politècnica de València, Valencia, Spain
e-mail: mperis@doe.upv.es

4.1   Introduction

As global hotel chains struggle to capture the interest and the market of millennial customers (Carrington, 2016), facing increasingly fierce competition from alternative offerings such as Airbnb (which business model seems to understand the millennials' behaviour and needs), a private chain of luxury boutique lodges in Tibet and in the Tibetan area in northwestern Yunnan province in China, is illustrating that an entrepreneurship initiative born out of a passion for quality and beauty, respect for the environment, involvement and development of local communities, can be successful and become not only a benchmark for culture-themed hotels but also a paradigm of social innovation in the mature, very competitive and crowded market of luxury hotels.

This chapter has five components: the first section describes the geographical and cultural background of Mr. Baima, the entrepreneur who forms the subject matter of this case. His background and strategy is compared and contrasted to the strategies of the luxury hotel industry, which he has chosen to enter as an outsider, with a concept that goes against the mainstream industry's strategic approaches. The second section describes the objective and methodology of the chapter. The third section describes in detail the building blocks of the Songtsam Group, from the vision of the founder to the execution of detailed processes and *modus operandi*. The fourth section presents the outcomes of the lodges and lists the recognitions received by the hospitality industry, while the last section indicates the paper's conclusions, its limitations and offers suggestions for further research.

4.2   Context and Background

On a cold November night in 1964 Baima Duoji was born in Shangri-La, in the northwestern Yunnan province of the People's Republic of China. Shangri-La is the seat of the Diqing Tibetan Autonomous Prefecture. Situated at an altitude of over 3000 m, Shangri-La turned out to be a decisive force in Mr. Baima's destiny and lived up to its promise of being "Paradise on Earth" as described by James Hilton in his book, *Lost Horizon* (Hilton, 1933). All this was achieved thanks to Mr. Baima's vision, ambitious goals, determination and passion for perfection.

The province of Yunnan (meaning "South of the Clouds", in Chinese) is located in the South West of China and borders the Chinese provinces of Guangxi, Guizhou, Sichuan, the Tibet Autonomous Region, and the countries of Vietnam, Laos and Myanmar. Yunnan is situated in a mountainous area, with high elevation in the northwest, where the Songtsam lodges are located, and the altitude can vary from the mountain peaks to river valleys by as much as 3000 m (Wikipedia, 2018).

After completing high school, Mr. Baima studied animal husbandry in Kunming, capital of Yunnan Province. After graduating, he returned to Shangri-La and practiced as a veterinarian for 2 years. He eventually learned about TV production and began working for the local TV station. Thanks to his internship with Yunnan TV, he found an opportunity to study at the Beijing Film Academy. After living for a while in Beijing, he realized that few people from outside the Tibetan communities knew much about Tibetan culture, and some even misunderstood it. "Many people assumed that Tibetans were rugged and unrefined," he explains. "However, I think most are reserved and even introverted." (Chen, 2017). In 1992, China Central Television (CCTV) recruited Mr. Baima, who nurtured the hope that television could serve as a bridge to connect the Tibetan culture to other people from beyond the Tibetan inhabited regions. "I wanted to help more people to understand the Tibetan culture because we are one big family."

After joining CCTV, Mr. Baima started to produce documentaries about Tibet, which earned him great acclaim from critics. In 1998, his TV documentary "Portraits of Mountains", was awarded the Excellence Prize by MipTV, at an event which takes place annually in Cannes, France, home to the famous Cannes Film Festival. (MipTV, 2018).

Mr. Baima further deepened his understanding of culture and life during his tenure at CCTV. "Every culture has wonderful things to offer" he avers. "Learning about them makes your heart and soul stronger. When you establish good control over your mind, you can develop your own ideas about many things, and through the process, you will obtain wisdom."

In 1994, Mr. Baima was on his way back to Shangri-La, planning to shoot a documentary of his childhood home. It had been many years since he had last set foot in his native region and fond memories came pouring back. He remembered the excitement of climbing local mountains as a young boy, the intimate solitude of his town's Buddhist temples, and the people who helped define him as a person. Finally, Mr. Baima was home. The rush of emotions made him wonder: how could he give back? He thought about the region's rich culture and how he could create a way for travellers to come and experience a new way of life; a place that was more than the usual hotel and gift shop, a place where guests could immerse themselves in living history.

However, Mr. Baima did not commit the common mistake that many entrepreneurs make: to let his initiative and investment be driven exclusively by his dream and passion (Northwestern Polytechnical University, 2015a); he realized that, beyond his vision to make the Tibetan culture known outside Tibet, there was a market need because he had heard frequent complaints from his television colleagues about the less-than-ideal accommodations in Deqen, after they returned from business trips in Yunnan, despite the region's picturesque scenery. Mr. Baima remembered seeing many boutique hotels in Paris, and had once stayed in one of them near the Arc de Triomphe while on his way to attend the MipTV award in Cannes. That hotel in France inspired the idea of converting his home in Kena Village into a boutique hotel. A boutique hotel is defined as a hotel unique in style, design-centric, either independent or affiliated with a smaller brand system, with 40 to a maximum of 300 rooms (Hotel News Now, 2018).

His family home featured two courtyards used as a guesthouse, and additional buildings inhabited by his parents and sister's family that covered more than 1000 m².

In 2001, Mr. Baima razed the two old buildings of this family guesthouse, and built the Songtsam Shangri-La Lodge with 22 guest rooms, using the 60,000 RMB (US$ 8693) he had raised. The same year, his home county of Zhongdian was renamed Shangri-La County (Chen, 2017).

Songtsam in Tibetan means "pure land of the soul". The meaning is reflected in the hotel's logo: a lotus flower with eight leaves, integrated in an auspicious knot. The lotus flower reminds one of the mandala: the ability to rise pure from the mud. It refers to the fact that the essence of life is not tarnished, the auspicious knot represents the idea that the universe and all creatures are eternally on the move in circles, without beginning and without end.

Mr. Baima's family guesthouse was the first lodge opened in 2001, and from 2006, this was followed by seven other Tibetan-style hotels, six of them located in the Diqing Tibetan Autonomous Prefecture of the Yunnan Province, one in Lijiang in Yunnan and one in Lhasa, Tibet. One of the eight hotels is under joint management with the French multinational hotel group Accor S.A., as a culture resort and the remaining seven belong to the Diqing Songtsam Lvgu Hotel Co. Ltd. (hereafter called Songtsam Group), all of them located along the Yunnan–Tibet route: from Lijiang to Lhasa. The Yunnan–Tibet route is known as the Ancient Tea Horse Road, which was a trade route mainly through Yunnan, Sichuan and Tibet (Yunnan, Wikipedia). From the sixth century to the twentieth century, traders from the Yunnan province travelled by foot and horseback with pack horses to exchange tea for horses with the people in Tibet, and thus the pathway was called the Tea Horse Road. The Ancient Tea Horse Road rivaled the Silk Road trade routes in importance, and is known to be the longest ancient trade road in the world. It was certainly the toughest road to travel, as few people in ancient times could finish the whole journey (China Highlights, 2018).

The concept of luxury lodges and travelling between lodges at the beginning echoed the concept of the resorts and journey between five lodges in five valleys to experience the landscapes of Bhutan offered by Amankora in Bhutan (Amankora, 2018). However Mr. Baima has maintained a steady pace in building and opening new hotels along the Lijiang–Lhasa route, pushing his vision and ambitious goals across his organization. Building the resorts in such remote areas is "far from a simple business" in Mr. Baima own words (行李, 2015), with most of the places located at altitudes exceeding 3000 m; but the locations are not selected from a practical point of view of easy accessibility and availability of an existing, mature infrastructure. Each location is selected for its natural beauty and unique natural environment, combined with a deep historical and cultural legacy.

This case confirms the theory and model of innovation (Christensen & Raynor, 2003) that disruptive innovation in a given industry is delivered most of the time by industry outsiders and not by mainstream players in the industry, not even by industry leaders. While the luxury hotel industry in China (Jing Daily, 2012) and worldwide has been facing fierce competition putting pressure on prices, and

offering an experience is gaining traction over mere product offering (D'Arpizio, 2016), the vision of a Tibetan entrepreneur to provide a feeling of belonging to a living historical environment, through the vehicle of luxury lodges in secluded locations along the Ancient Tea Horse Road between Yunnan and Tibet, is proving to be a winning proposition.

The luxury hotel industry faces an increasingly challenging competitive environment globally, where key players are confronted on one side by the paradox offering from Airbnb, which has become the largest provider of accommodation without owning any hotels or resorts (Innovation Tactics, 2017), and on the other side by the generational changing needs and wants of the millennials, who represent 50% of the hotel bookings (Carrington, 2013). This has led to a market consolidation (Kostuch, 2016), with the top ten players holding the majority of the global market share (The global luxury hotels market, Report Linker, 2016). Deloitte is reporting that throughout 2018, the hotel industry will continue to turn out a strong performance, and is projected to sustain a 5–6% growth (Deloitte, 2018). However some analysts are concerned, as this industry is known to be cyclic; throughout the year, hoteliers will be looking for additional opportunities in strategic places, including a re-visit of the midscale experience, traveller-facing technology, health and wellness and loyalty.

Geopolitical tensions are affecting the hospitality industry in mature markets: after the presidential election, mood in the United States resulted in insecurity, fears of terrorist attacks spread in Europe, and uncertainties have increased after Brexit. Chinese socio-demographics such as a growing middle class, increased individualism, affluent luxury consumers moving together with the increasing aging population, are expected to fuel a growing consumption for luxury items in China, including hospitality (D'Arpizio, 2016).

By entering the luxury hotels industry, Mr. Baima has confirmed that a double discontinuity in a given market always offers a business opportunity to be seized (Northwestern Polytechnical University, Remund, 2015b). With a strategy of focus and differentiation (Porter, 1998) when the disruptive market leader, Airbnb, and its main competitor, HomeAway, have no assets (Reporter Linker, 2016), and the main players wish they had less assets as the fixed costs as a percentage of revenue is generally higher than 60% for most hospitality-based operations (Hoare, 2015), Mr. Baima has invested around 400 million RMB (US$ 63.2 million) in the construction of eight high-end lodges which offer a total of 247 guest rooms along the Ancient Tea Horse Road in the Tibetan area of Northwestern Yunnan province in China and Tibet.

The initiative of building luxury lodges in remote areas above altitudes of 2000 m fulfills the dream of Mr. Baima to make these locations known to the guests who come from crowded metropolis, and have forgotten how it feels to be integrated with nature, culture and history. Additionally, it reflects Mr. Baima's desire to give back to the Tibetan villagers and communities in the Yunnan and Tibetan provinces of China, making them partners in development by lifting them up from poverty, and to conserve the handicraft skills and centuries-old knowhow of carpenters, weavers, stone masons and other artisans who would have been otherwise doomed to disappear due to lack of patronage.

4.3   Objective and Methodology

This chapter analyses the case of an entrepreneur born in the Tibetan region of Northwestern Yunnan province in China. The entrepreneur, Mr. Baima, is the founder and CEO of the Songtsam Group of luxury lodges. The case illustrates how entrepreneurs, newcomers to a mature, saturated industry, can create value for customers and society, and deliver sustainable growth for the company and for the communities where they are located, by designing the offerings of their company with the vision of creating and delivering an experience that is forgotten in the increasingly urbanized environment in China. Building the lodges in secluded areas has contributed to the economic development of the villages, provided a sustainable living to the villagers, and is contributing to conserve and develop the knowledge of arts and crafts of the region. The case has many levels of interest and uniqueness: the locations of the lodges, all of them at an altitude between 2000 and 4200 m in the Chinese provinces of Yunnan and Tibet; the cinematographic architecture of the buildings, design of the rooms, gardens, decorations and experience, and the near-paradox that, in spite of the considerable investment in securing the land and building the lodges, the "product" features which are communicated are intangible and purely emotional.

The methodology employed in the case study includes gathering background knowledge of the entrepreneur, his team, the locations, the lodges, the competitors and the mainstream luxury hospitality industry; conducting semi-structured interviews with the entrepreneur, his personal assistant, his head architect, the staff of the lodges and evaluation of the guests' written feedback in the international hotels' portals.

4.4   The Case of the Songtsam Group of Lodges

This section is composed of six segments:

- Macro-economic data concerning urbanization rate in China and GDP data of the Yunnan and Tibet provinces in China.
- Key performance indicators (KPI) of the luxury hotel industry globally and in China.
- Songtsam Group start up days: vision, business model, capital requirement and product definition.
- Human Relations challenges to staff a management team aligned to the vision.
- Giving back to the Tibetan communities.
- Extended supply chain and the creation of the Songtsam Group ecosystem.

4.4.1   Macroeconomic Data

The fast economic development in China for the last 25 years has resulted in an urbanization rate of 56% in 2016 (The World Bank, 2016), and it is expected to reach 60% in 2018 (Reuters, 2018). Mr. Baima's underlying vision and the core values of Songtsam Group are related to this pace of urbanization and its consequences: "I have long hoped that Songtsam could bring people a feeling of a distant home, a home far away from home." There is a social consideration to be made; among the 31 provinces in China, the provinces of Yunnan and Tibet ranked number 30 and number 28, respectively, in GDP per capita in 2017, with 34,546 RMB (US\$ 5117) and 39,258 RMB (US 5814) per capita respectively, versus a GDP per head in Beijing, ranked number 1, and Shanghai (ranked number 2) of 128,927 RMB (US\$ 19,095) and 124,571 RMB (US\$ 18,450) respectively (China GDP per capita, Wikipedia, 2018).

In the last 30 years, China has taken giant steps to lift its population out of poverty, and more initiatives are currently underway to lift all Chinese out of poverty by 2020, including relocation of 2.8 million people out of inhospitable areas (Lim, 2018).

4.4.2   KPI of Luxury Hotel Industry Globally and in China

A study conducted by Bain & Company and published in Altagamma shows that the global luxury hospitality market grew by 4% in 2016 over 2015, and is expected to grow at a CAGR of 3.5% between 2016 and 2021, reaching the size of US\$ 194.63 billion by 2021 (Globe News Wire, 2017). According to the Bain & Company's global analysis, two of the main takeaways are that in the luxury market, the out-of-home high end experience is gaining traction, benefiting from the growth of luxury travellers and increasing self-indulgence, and that consumers, tired of more of the same approach, are rewarding innovation across luxury categories and segments (D'Arpizio, 2016).

China's hotel industry has experienced meteoric growth, resulting in a business of US\$ 44 billion, with 2.5 million hotel rooms. Some analysts suggest that the market is reaching its saturation point, but when compared with hotel penetration rates in mature markets, like the United Kingdom, (10 hotel rooms per 1000 capita) and the United States (20 per thousand), China, with just 4 rooms per 1000 capita, appears to have an attractive growth potential. A study conducted by A. T. Karney concludes that there is still considerable room for growth, and predicts that by 2020, hospitality in China will become a US\$ 100 billion industry with 6.3 million rooms, to reach 8 rooms per 1000 capita, with one major trend being that consumers will become more sophisticated and demanding, and the recommendation that players need to adapt their concepts, offerings, and economics, to be successful in the Chinese market (Gan, Goh, & Kim, 2013).

4.4.3   Songtsam Group Start-Up Days: Vision, Business Model, Capital Requirement and Product Definition

Mr. Baima's vision was to create a platform to make the Tibetan culture widely known: "I wanted to share the Tibetan culture with as many people as possible, and inspire people from different ethnic groups to better understand each other. We are all essentially a family living under the same roof, so we should work to live more harmoniously together." (China India Dialogue, 2017).

This vision, in combination with the increasing urbanization rate in China, resulted in Mr. Baima conceptualizing that in many people's minds, home is a warm place, full of deep affection; however, when living in the city, the idea of hometown is increasingly blurred, and it does not remain as clear as it used to be. "The concept of hometown is not as full of fantasy and closeness as it used to be, with only a warm memory left, and even just a yearning for warm memories. If I want to build a home for the people living in the distant cities, I hope to add some elements of dreams." (行李, 2015). Mr. Baima believes that offering an experience of being at home, as people in the city remember in their dreams, will touch the hearts of everyone, so "I always try as much as possible to select sites in such distant places." The idea of building a sustainable offering starts with the selection of the locations: Mr. Baima has selected places not easily overwhelmed by tourists and traffic, remote places capable of self-sustaining themselves from the nearby environment, in Mr. Baima own words: "I like places that can remain aloof from the world for a long time." However, from the very beginning, Mr. Baima's vision was not to offer hospitality as the final product; his vision was to make his guests travel from lodge to lodge along the Ancient Tea Horse Road, and make his guests experience the rich Tibetan culture and history through the adventure of the travel, and the closeness with nature and the Tibetan people in the villages.

Even if Mr. Baima, during the interviews, does not address another key aspect of his vision directly, his building lodges in isolated areas have been a way to lift many people and villages from poverty. The Songtsam Group has given sustained employment to the local villagers during the construction, the production of handcrafted objects and decorations for the lodges; and once the lodges are operational, they employ a considerable number of local people at all levels. There is a palpable pride among all employees, workers, staff of the lodges to be part of this dream, and contribute to the realization of Mr. Baima's vision and dream.

The pace of constructing and making eight luxury lodges operational in seventeen years under very challenging natural and climatic conditions, may seem very fast from a foreign point of view; but in the Chinese context of economic growth and development, this pace of growth is considered gradual and measured.

The Songtsam Group could have grown much faster, had they selected the business model of franchising as two of their competitors have. The Seclusion Group, established in 2011, lists six hotels and plans to reach over thirty-eight locations by 2020 by franchising their concept (Seclusion Group, 2018), and the Blossom Hill Inn, established in 2009, currently counts nineteen hotels (Blossom Hill Inn, 2018).

However, franchising was never in discussion nor an option for Mr. Baima, because of his concern about quality and his search for a common understanding of the Songtsam Group's core values in each partner of the Songtsam ecosystem.

The plan of building the lodges along the Ancient Tea Horse Road to make guests travel along the Ancient Road and its execution are ambitious and capital intensive: in addition to the existing six hotels, in 2017, one hotel each was opened in Lhasa in June and in Lijiang in August, one hotel is currently under construction, the land is secured for four more hotels, and four more hotels are at the planning stage (Fig. 4.1), with the ultimate goal of having a total of 30 hotels by 2022.

At this stage of the Songtsam Group's development, the question arises of how the Group plans to balance further investments in construction and the increasing expenses on marketing and promotion needed to make the lodges known. Recently, Mr Baima has opened the door to small investors, aiming to attract people who share his vision of Songtsam, and can contribute with capital and additional strategic resources such as marketing experience in China and abroad, their insight of the tourism market, financial advice on future corporate financing. In the early days, after the success of the Shangri-La lodge became known, many investors tried to buy into it, but Mr. Baima refused, because he did not feel that the business was strong enough to absorb extra capital. In his eyes, every move should be made in a prudent, reasonable manner, especially in terms of non-renewable resources. Deqen boasts unparalleled tourist resources, and if properly utilized, everyone can benefit from them for a long time.

After the first lodge was built in Mr. Baima's hometown, the first major capital investment came in 2006 from an investor in Singapore, and supported the growth momentum to construct such high quality and exclusive lodges, especially the construction of Songtsam Shangri-La Linka, and the collaboration with the Accor Group.

In 2017, the Songtsam Group sought funding from Kaistart, an internet crowdfunding platform in China, and raised over 50 million RMB (US$ 7.9 million) for

Fig. 4.1 List of current Songtsam lodges locations and future plans

two projects. The number of investors from crowd funding is currently over 260, with each investor contributing between 60,000 and 550,000 RMB (US$ 9'500 and US$ 86,700). The concept of inclusiveness, so important to Mr. Baima and his team when offering a delightful experience to the hotels' guests, has been extended to the investors. This initiative not only provided the Songtsam Group with cash infusion, but also with a community of faithful investor-followers, who are now regularly informed of the status of their investment. Nevertheless, in the spirit of conserving resources, the Songtsam Group has no plans to start another round of crowd funding in 2018, but they will keep evaluating the performance of all the current projects in terms of ROI, market influence, and market penetration to plan their growth at the right pace.

It is interesting to note how the Songtsam Group defines "the product", vis-a-vis its competitors. From an empirical research of the top high-end hotels' communication and promotion, it can be concluded that the advertising message of four of the leading five global 5-star hotels is mainly focused on presenting the tangible aspects of their product features: luxurious rooms, rich breakfast, spa and swimming pool facilities. Only one hotel chain is focusing their communication on intangibles, emotional features: the feeling of being welcomed, being protected and taken care of (Sheraton Hotel, 2017).

The Songtsam Group defines the product not by concentrating primarily on the exquisite buildings, the antique decorations, the wooden, copper, marble, stone, textiles handicrafts of museum quality and exclusivity; but the product is defined as Songtsam Tours, making the Songtsam Group more of a travel agency than a hospitality provider, as they offer the classic Songtsam Shangri-La circuit, along the Ancient Tea Horse Road.

Even before the model of the revised Minimum Viable Product for product development was described for the first time in the literature in 2017, as shown in Fig. 4.2 (Remund et al. 2017), Mr. Baima and his team developed the entire offering by keeping in mind the "delight" segment of the product development. The portion dedicated to "delight" is built into the product concept and development from the beginning of the lodge construction, and the processes are designed to reinforce the guests' delight.

The vision of Mr. Baima to create a place of solitude that no longer exists in modern cities, to fulfill the longing to belong to a community or a family that

Fig. 4.2 Minimum viable product, entrepreneurial view for innovation and sustainable competitiveness. ©2016 Remund
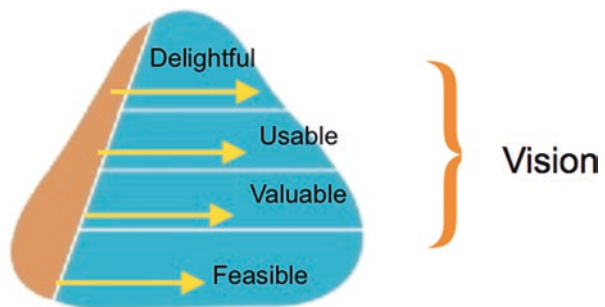
urbanization has taken away from everyday life, is realized in the design of the processes. For example, when the guests arrive, they are usually picked up by the lodges' car, whether they arrive for the first time from the airport or they drive back to the lodges after a few hours of excursion. At the door of the lodge, three employees will wait for the guests and welcome them, as a family would do with other family members. The welcoming smiles are genuine, and the disciplined approach of welcoming the guests at the hotel door is intrinsic to a consistent training and a wholehearted buy-in by the lodges' employees at all levels. Every small detail in the construction and decoration of the lodges, the gardens, and the surroundings has been thought through and planned; the cinematographical background of Mr. Baima can be seen from every angle of the resorts. The copper basins in the bathrooms are made in the shape and decorated in the style of the Tibetan singing bowls used by Tibetan monks for healing, teaching, and meditation (Gray, 1986), and when touched with a hard object, they emit a clang similar to the one of a singing bowl.

As more lodges are added to the existing eight, the product development increases from left to right as illustrated in Fig. 4.2, at equal pace for all the MPV elements, and it is bound to reach the ultimate vision of Mr. Baima: to offer a unique immersive cultural experience in Tibetan culture.

4.4.4 Human Relations Challenges to Staff a Management Team Aligned to the Vision

The beginnings of the first lodge were not easy from an operational point of view: Mr. Baima recruited the first manager of Songtsam Shangri-La lodge from Kunming, the capital of Yunnan province, where he was running a four star hotel. Their different operational ideas resulted in conflicts between the manager and Mr. Baima, who wanted a quiet hotel rich in Tibetan cultural atmosphere, rather than a bustling commercial resort. As the lodge suffered heavy losses in its early years, Mr. Baima consecutively hired a German, an Austrian and a Xi'an native to manage his first lodge, but none of them could turn things around. At the opening in 2001, the hotel charged 80 RMB (US$ 10) per night and 11 RMB (US$ 1.30) per person for a lunch. Finally in 2003, Mr. Baima began to manage the lodge himself; he lived there to train his employees as much as possible, and urged them to slow down the promotional effort to match the development pace of the lodge. Eventually, Mr. Baima hired the lodge's current manager, Mr. Zhang Min. Thanks to their joint efforts, the first lodge finally found a path to sound, sustainable development. They hired locals to introduce the Tibetan religion, culture and history to the guests. "I wanted every guest to feel the intimacy of the Tibetan culture and enjoy a natural stay," said Mr. Baima (Chen, 2017).

As time went on, Songtsam Shangri-La lodge welcomed an increasingly heavy flow of guests, even as the rates went up. After spending one night in the lodge, many backpackers canceled other reservations to stay there for a full week.

Gradually, the lodge became famous. Since the day Songtsam Shangri-La lodge was established, Mr. Baima has been clear about his goal of operating the lodge sustainably. To this end, he invested a decade of research and planning and he never rushed the hotels to market or to a faster expansion.

Currently, with eight resorts to operate, the composition of the Songtsam Group management team is diverse: some are local villagers, a few are foreign executives and others are seasoned hospitality professionals. Among all employees, local Tibetans account for 98%, which enriches the hotels' Tibetan flavour. The staffing strategy for the lodges is conceived for the benefit and care of the guests. Songtsam plans 1.6 employees per room, so that a lodge with 30 rooms would have at least 48 employees looking after the guests. Contrary to the mainstream luxury hotels' operating strategies, Mr. Baima believes that hiring and training local villagers is beneficial in the long term, because the lodges' staff serves the guests according to their own beliefs and genuine care for others. Mr. Baima believes that such relationships can touch the soul of the guests.

Regardless of their background, all employees see Mr. Baima as much as a teacher, as a boss. "Mr. Baima taught us that giving is the simplest way to find happiness," explained the manager of Songtsam Shangri-La lodge. "We treat our guests with kind, generous hearts. Mr. Baima is always considerate to others and cares about every guest and employee, and even his employees' families."

4.4.5   Giving Back to the Tibetan Communities

Inclusiveness has been one of the driving forces in the Chinese approach to economic growth and education (Tandon & Zhuang, 2007). Mr. Baima, inspired by the rich Tibetan culture, worked with local artisans and members of the community to help build and run his first Songtsam lodge and all the subsequent hotels he opened. Since the 1990s, Mr. Baima is a passionate collector of old Tibetan treasures that are increasingly hard to find nowadays. He is currently showing his collection in every lodge, especially in Songtsam Shangri-La lodge and Songtsam Linka Retreat, transforming these hotels into small museums of Tibetan culture (Songtsam, 2018). Mr. Baima followed traditional construction methods for his lodges, to preserve the original look of the villages and the natural environment as much as possible. The lodges are a showcase of woodwork from the local artisans, every piece of furniture is designed by Mr. Baima and his team following a concept of beauty and harmony. The carpets and tapestry are woven locally with the material and natural colours found in nature; every small detail has been thought through, conceived by Mr. Baima himself and his inner circle of associates, and supervised by him. He hired seasoned local artisans to carry out carpentry, bricklaying and copper carving. "When building Songtsam Linka Retreat, I was lucky to find an experienced coppersmith, who had been forced to take up stone carving because of lack of demand for a coppersmith in the village and in the region. I told him he could do copper

work for my hotels as long as he wanted. Now, Songtsam Group has five copper-smiths on its staff, who produce wares such as door knobs, knockers, pots and basins" (China India Dialogue, 2017).

Mr. Baima is profoundly aware of the importance of education. Since 2005, he has provided financial support to students in his home village. Wherever one of his hotels opens, he introduces grants for local students of 500 RMB (US$ 80) for each middle school student, 1000 RMB (US$ 160) for each high-school student and 2000 RMB (US$ 320) for each college student. Mr. Baima believes that doing good things makes life more meaningful. Currently, a few of the supported students work for the Songtsam Group after graduation; providing scholarships for the students is not a self-serving activity for Mr. Baima, but these are actions deeply rooted in his belief that we need to give back what goodness we receive in life.

4.4.6 Extended Supply Chain and the Creation of the Songtsam Group Ecosystem

It seems that the concern Mr. Baima showed from the beginning of his initiative, of how to continue to sustain and develop the local communities, led to the construction of further lodges. In Mr. Baima's own words: "Through Songtsam Shangri-La Linka Retreat, the first large scale resort, I trained a lot of craftsmen, including stone masons and carpenters, who are from Nantong, Sichuan, Heqing, and all of them came to work in Diqing. By 2007, had I not started the hotels along the Ancient Tea Horse Road, I would have not been able to keep all these people. It would have been difficult to call them back and employ them at a later time. Sure enough, it becomes indeed hard to find so many skilled craftsmen, because many of them had to change their profession, giving up such hard work."

In order to provide continuous work to the local community of craftsmen, and also to support future development, the Songtsam Group produces and sells its textiles, bedroom and bathroom decorations to Muji, a known Japanese brand of clothing and home decoration known for the high quality of their products, natural materials and their zen-like design (Muji 2018). An online shop selling Songtsam style products will be opened by Muji in late in 2018.

Mr. Baima and his team have turned their suppliers into partners, collaborators and, when necessary, even hired them as full time employees, exactly as described in the book *Marketing 3.0: From Products to Customers to the Human Spirit.* Kotler postulates that channel partner selections should be done with the mirroring process: mirroring of Purpose, Identity and Values (Kotler, Kartajaya, & Setiawan, 2010).

However, this case illustrates that the suppliers and channel selection are only one element of the ecosystem built by Songtsam Group around their lodges. A graphic representation of such ecosystem inspired by the figure above is shown in Fig. 4.3 (Remund, 2017), whereby the key principles of Purpose, Identity and
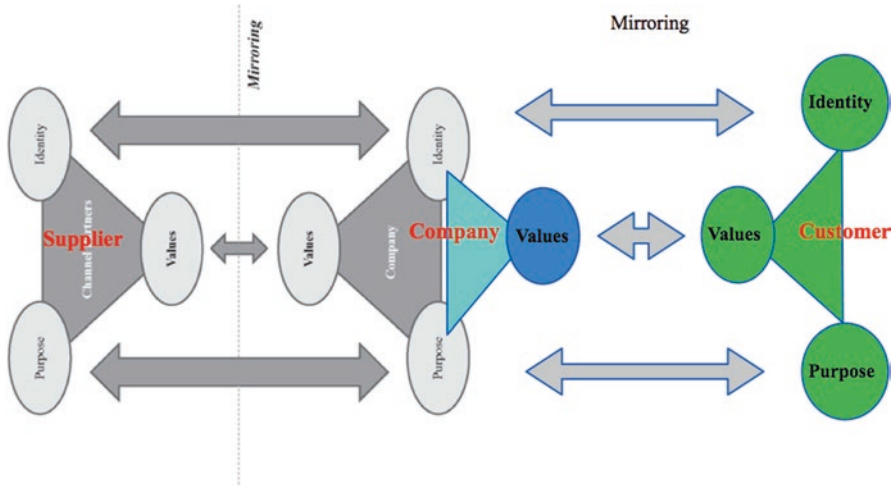
Fig. 4.3 Alignment of vision, purpose and values along the supply chain and the ecosystem. ©2016 Remund adapted and extended from Kotler et al. (2010)

Values are aligned all along the value chain and the stakeholders, including customers and investors.

By building a large ecosystem around the Songtsam Group offering, Mr. Baima has unlocked the power of adjacent spaces, which goes beyond the selection of suppliers; it starts with the selection of the lodges' location. During an interview conducted for this case, a Songtsam Group executive reported that the location of the latest lodge opened in August 2017 in Lijiang, was suggested to Mr. Baima by a Buddhist monk who lives in a village, 5 km from the old city of Lijiang. Mr. Baima was at first skeptical, Lijiang city being more of a tourist and commercial centre. Eventually, the monk convinced him to visit the village, and today the Songtsam Lijiang lodge is situated on the ground adjacent to the Buddhist monk. A bridge connects the lodge to the monk's home and temple and the lodge guests can cross the bridge and visit him at home. This example illustrates how the lodges are integrated in the community and, in some cases, there is a seamless continuation from the lodge to the neighbours.

Songtsam lodges also cooperate with nearby craft workshops by encouraging their guests to visit those shops to promote the development of local crafts. The development of such interconnected ecosystem is complex, time consuming and requires a deep knowledge of the entire supply chain, from the raw material suppliers, to the craftsmen, to the community, to the investors. This ecosystem has become a real competitive advantage for the Songtsam Group, because it can be applied to other industries, it is difficult and time consuming to copy and it provides a real benefit to the guests and the community (Prahalad & Hamel, 1990). The graphic illustration of the Songtsam ecosystem can be seen in Fig. 4.4.
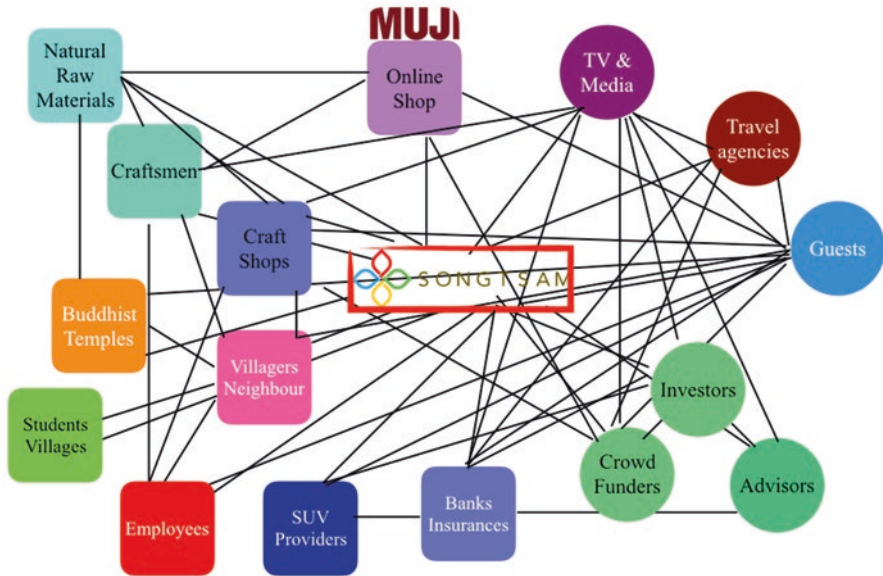
Fig. 4.4 Ecosystem structure of Songtsam Group. ©2018 Remund, An Hong

4.5 Outcome

The Songtsam Group defines success primarily in terms of the delight of the guests, but it also measures up to the standard Key Performance Indicators typical of the hospitality industry. The Group management is keeping track of the guests' nationality, and realized a shift: from 2001 to 2008, the visitors' nationality was 80% foreigners and 20% Chinese guests; however, after 2008 till today, 80% of the guests are Chinese guests and only 20% foreigners. The occupancy rate is 50%, lower than the average rate in the industry, which is around 72% in Asia (Statista, 2018) but this rate does not worry Mr. Baima or his management team, because the lower rate is due to the locations of the secluded lodges, and many lodges being new and just operational. In 2017, the Group recorded over 18,000 guests, and it projects 30,000 guests for 2018. The guests who took tours along the Ancient Tea Horse Road were over 3600 in 2017 and their number is projected to reach around 6000 in 2018.

The recognition by industry opinion leaders and peers is important, and a sign of consistently exceptional quality and guests' delight. Since 2009, the Songtsam Group lodges have received awards such as China Best Concept Hotel Award and China Best Hotel Design Award (Songtsam Shangri-La Linka Retreat). Since 2011, several lodges have received every year the TripAdvisor Travelers' Choice Award for top 25 and top 10 best hotels in China. In addition, in 2012, Tatler Travel Guide listed Songtsam Meili Lodge among the 101 Best Hotels in the World. The travel publication Conde Nast Traveler has awarded the top prize to several Songtsam lodges in the categories of Best View Hotel, Best Hotel for Family in 2012, 2015, 2016. In 2017 and 2018, Conde Nast Traveler conferred on Songtsam Tacheng Lodge the award of Best Social Responsibility Hotel.

4.6 Conclusions

The introduction raised the issue of whether and how an entrepreneur, a late comer and an industry outsider, could be successful by not compromising his vision for harmony, quality and esthetics, but by sustaining and developing the local Tibetan communities in China, and by creating value for his company's customers, suppliers and investors. The case of the Songtsam Group illustrates in real life many theories and models of disruptive innovation, of Multiple Viable Product development, of the shift from product to customers to the human spirit.

This case suggests that there are still challenges ahead for the Songtsam Group, the main one being the alignment of the entire organization to Mr. Baima's vision, especially since the company has substantial future growth plans through 2022. On the other side, Mr. Baima and his management team are particular about slowing down the pace of growth of the existing lodges, in order not to compromise the quality by achieving a higher occupancy rate in the short term.

The case also shows that success for the Songtsam Group has many facets: success is not only the ROI of the considerable capital investment to build luxury lodges in very secluded places between 2000 and 4200 m of altitude, success is not only the ability to penetrate the market in China, but success is mainly defined by the Group's ability to capture the hearts of the guests by presenting the beauty of the rich Tibetan culture, and to develop a sustainable ecosystem around the lodges and the Tibetan villages. Principles over material benefits seem to be the guiding principle for the entire Songtsam organization.

The case inspires the conduct of further research to follow up the Songtsam Group development and growth over time, and whether Mr. Baima vision, obsession for beauty and the comprehensive ecosystem are maintained even when there is a generational change at top management.

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