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Business process  
re-engineering and  
the virtuous cycle



## CHAPTER 4

# CREATING

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A VIRTUOUS CYCLE

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IN THE NEW YORK

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HOTEL LAUNDRY

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BUSINESS

BY: ROBERT EDEN

# CHAPTER 4

## Creating a Virtuous Cycle in the New York hotel laundry business.

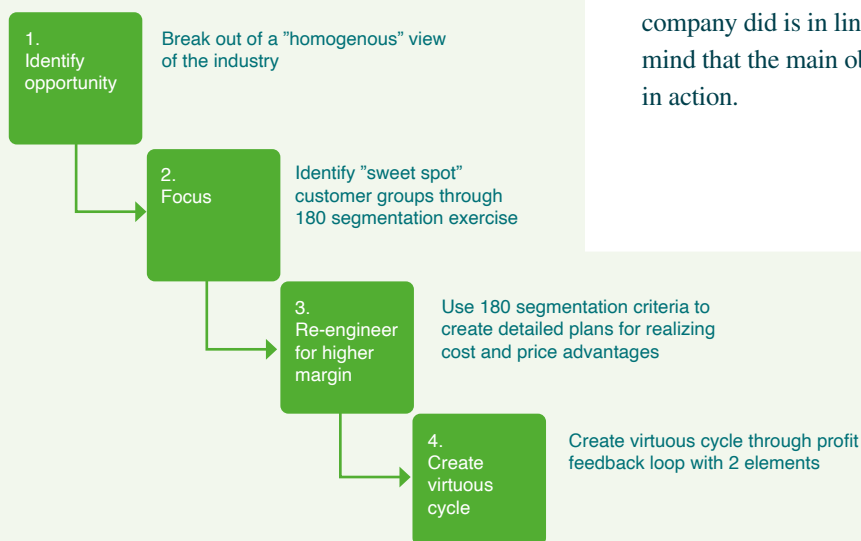
Episode 4 is about a strategic pattern that can “checkmate” an entire industry in your favor. It does so by creating a virtuous cycle through 4 steps - hence the 4 chapters in this episode.

In this 4th and final chapter, I bring everything together by showing how each of the steps played out in my favorite business turnaround story: STAR LAUNDRY. The story was featured in Forbes magazine and tells how the then 27-year-old Yaakoub Hijazi was able to turn the company he inherited from his father from near bankruptcy to a huge success dominating his industry.

Before moving on, I want to first emphasize a key point about strategic patterns. It is important to understand that they are more the product of logical reasoning and perception, than a concrete thing. The reason I say this is because describing a pattern comes with a challenge: what you “see” can sometimes be based on just a few loosely tied facts, parsed together by conjecture. This is very much the case here so bear with me.

Therefore, the way I will proceed is by first stating my hypothesis on what I think STAR LAUNDRY did at each stage and then presenting what facts I can find to support my reasoning. The facts will come from either the original Forbes article, from other public sources or from the company website. The aim is not to prove that I’m right per se, but to provide evidence on whether what the company did is in line with what I think they did. Keep in mind that the main objective is to demonstrate the pattern in action.

### 4-STEP PATTERN TO “CHECKMATE” AN INDUSTRY



### Episode 4 is arranged into 4 chapters:

- **Chapter 1:** 180° segmentation – uncovering the sweet spots in your market
- **Chapter 2:** Star Laundry and 180° segmentation in action
- **Chapter 3:** Business process re-engineering and the Virtuous Cycle
- **Chapter 4:** Creating a Virtuous Cycle in the New York hotel laundry business.



## STEP 1: Identify the opportunity

In chapter 2 I established the starting point for the case by explaining how the New York industrial laundry market was first seen as homogenous. Every company was competing on price and chasing after the same 200 or so clients. Service quality was “crap”, customers were mostly unhappy, and laundry companies were all in or near bankruptcy - including STAR LAUNDRY. This I said was an opportunity for someone to start thinking differently as very few markets are truly homogenous - someone just has to realize it.

## STEP 2: Focus

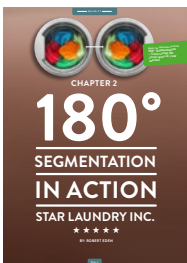
I then moved onto showing how a segmentation technique I call 180° segmentation can be used to slice and dice the market in a new way. The result of the exercise is the identification of “sweet spot” customer segments to focus on.

The picture below is from chapter 2 and shows the results: large and luxury hotels in Manhattan that require high levels of service and want their laundry service provider to be more a partner rather than a supplier.

	Manhattan			New Jersey		
	SMALL	MEDIUM	LARGE	SMALL	MEDIUM	LARGE
Budget	Low	High	Low	Low	Low	Low
Mid-Tier	Low	Low	High	High	Low	High
Luxury	High	Low	High	High	High	High

■ Basic service / Not critical  
■ Hygiene factor / Out sight out of mind  
■ Critical / Be part of the team delighting customers

If you read the article, you will find that the segments highlighted in the table above are EXACTLY the segments Hijazi started to vigorously target.



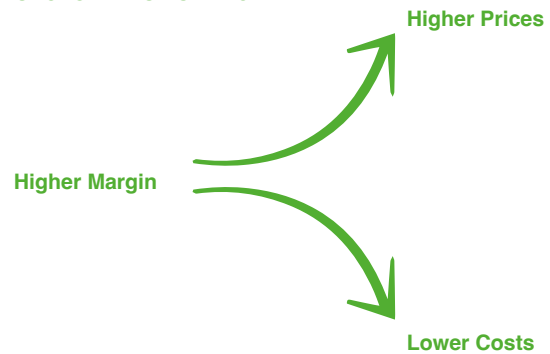
*The facts on steps 1 & 2: we know from the Forbes article that the segments mentioned above were exactly what STAR LAUNDRY started to target. The article even mentions that Hijazi was “very selective about his hotels”.*

## STEP 3: Re-engineer for higher margin

At this stage we know who we are targeting, and more importantly, how the target customer groups differ from others in terms of cost and price implications. These were after all the key dimensions in the segmentation exercise. The next step is to bring home the potential cost and price advantages by re-engineering processes.

Step 3 is by far the hardest part of this strategic pattern since it’s where the “rubber hits the road”. It’s also why there is a lot of detail involved. But the devil is almost always in the details, so it’s worth going in deep.

### OBJECTIVE OF STEP 3

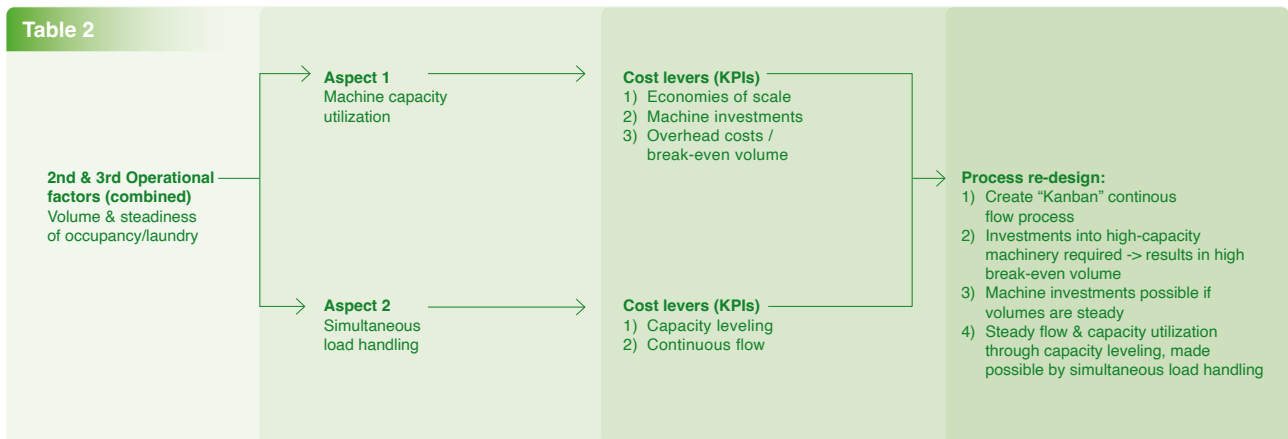
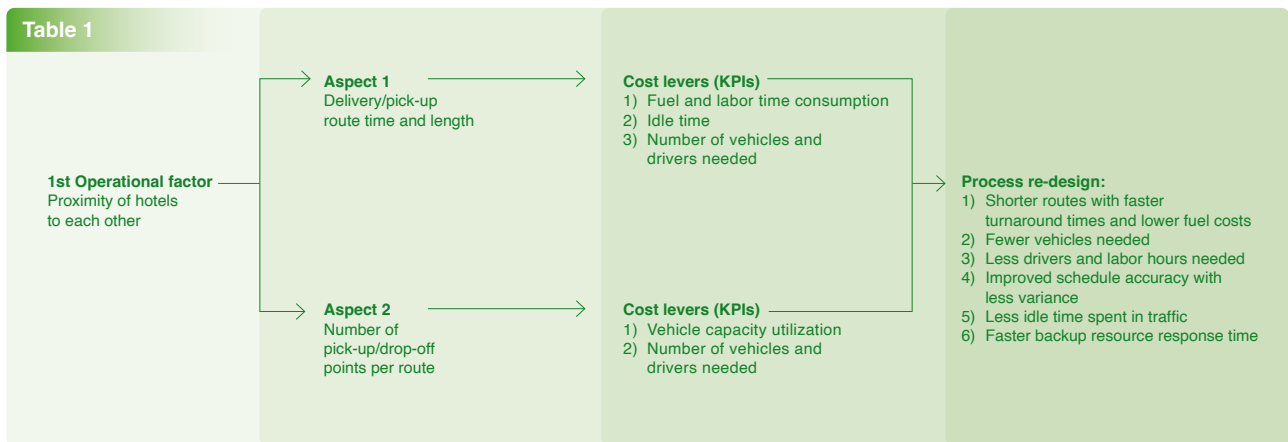


### STEP 3.1: Re-engineering for lower costs

Referring to chapter 2 and the 180-segmentation exercise we did there, 3 specific factors about the New York hotel laundry market jumped up and smelt like having operational cost implications:



1. The density and proximity of hotels differed from area to area.
2. Volume of occupancy (and therefore also of laundry) was in some areas and types of hotels higher than in others.
3. Steadiness of occupancy (and therefore also of laundry) was more even and predictable in some types of hotels than in others.

Following the technique laid out in chapter 3, tables 1 and 2 show a cascading breakdown of each factor into further levels of detail. The last level of detail is a list of specific process design parameters to be implemented at a grass root level. To simplify matters I've combined factors 2 and 3 since they correlate almost one to one.



The analysis presented in the tables above is based on my own reasoning, and others would most likely come up with something different. However, what is evident is that serving a select group of closely situated hotels with high occupancy rates comes with a multitude of cost advantages both in logistics and in the laundry plant itself.

In the table below I have outlined how I think the company took advantage of the factors I identified and implemented them into their processes. Presented in the same table is what evidence is available on each point and my subjective assessment on whether my hypothesis and the evidence are in line with each other.

WHAT I THINK THEY DID	WHAT THE COMPANY & FORBES ARTICLE SAY	IS IT WHAT THEY PROBABLY DID?
<b>LOGISTICS</b>		
<p><b>Route planning</b> Created shorter, highly efficient drop-off/pick-up routes, requiring significantly fewer: vehicles, drivers, fuel, and idle time spent in traffic etc.</p>	<p><b>In the article:</b> Delivery route efficiencies are specifically named in the article as a source of competitive advantage</p>	<p><b>70- 90%</b> Although there are no further details in the article, this is highly likely to be correct.</p>
<p><b>Scheduling &amp; turnaround times</b> Improved scheduling for faster service turnaround times and reliability</p>	<p><b>On the website:</b> Fast turnaround times and reliability are emphasized: We own and operate our trucks so we can ensure delivery reliability. The linen and terry have a 24 hour turnaround time so what we pick up today will be back to you tomorrow!</p>	
<b>PLANT</b>		
<p><b>Machine investments</b> Invested into state-of-the art, high-capacity equipment.</p>	<p><b>In the article:</b> Machinery is described as “giant” and “high-tech”.</p> <p><b>On the website:</b> “ We have specialised equipment that can handle bulk orders without compromising quality, including large-capacity machines and high-tech drying systems.”</p>	
<p><b>Continuous flow process</b> Built a continuous flow laundry handling process (i.e., Kanban) enabled by simultaneous load handling (washing laundry from different hotels at the same time in the same machine) and advanced route scheduling.</p>	<p>The article points out that: “separate compartments in the tunnel and computer coding allow multiple hotels’ linens to be washed at the same time.”</p> <p>The company highlights its process efficiency like this: With our experienced workforce and efficient processes, we can handle large volume requirements without sacrificing quality or timeliness.</p>	<p><b>50 – 70%</b> Process design is clearly a very important point, and in this type of business emphasis would be on continuous flow process design. But too few details are available to reach definite conclusions.</p>
<p><b>Economies of Scale</b> Reached high levels of capacity utilization and economies of scale by bringing together:</p> <ol style="list-style-type: none"> <li>1. Steady &amp; high volumes from “sweet spot” customer segment</li> <li>2. Continuous flow process design</li> <li>3. Improved logistics and scheduling</li> </ol>	<p><b>In a video interview:</b> In a rare video interview made during the corona virus pandemic, Hijazi says normally their lights are never shut, all their facilities would be packed and that they would process between 220 000 - 400 000 pounds of laundry per day (but during the pandemic only 40 000 pounds every 4 days).</p>	<p><b>80 - 90%</b> Although details on their pre-pandemic capacity utilization rates are not available, it is highly likely that it was very high.</p>



### STEP 3.2 - Re-engineering for higher prices

Now, let's take the customers' point of view (the 180-view in the segmentation exercise), and look at quality, customer service and the "job" a hotel would hire a laundry company to do. These are all things that influence the price the client is willing to pay.

To refresh our memory, here are the "jobs" a hotel might want their laundry company to perform (from Chapter 2).

- a. Help offer guests basic service.
- b. Help keep guests satisfied.
- c. Help delight guests. (The one identified as being most relevant for sweet spot segment)

Using the same technique as before, Table 3 shows what I identified as being the best "levers" for nailing the job and reaching a higher-than-average selling price. The table below shows the concrete steps I think they took.

Table 3			
<b>Job to be done</b> Help delight customers	<b>Aspect 1</b> Service Quality	<b>Price influencers</b> 1) Quality of output 2) Guarantee & aftersales 3) Quality of inputs used	<b>Must have for high price point:</b> <ul style="list-style-type: none"> <li>• Exceptionally high quality with guarantee and efficient complaint handling procedure</li> <li>• better than average chemicals and materials in use</li> </ul>
	<b>Aspect 2</b> Customer service	<b>Price influencers</b> 1) Level of personal service 2) Customization to unique needs & attentiveness	<b>Must have for high price point:</b> <ul style="list-style-type: none"> <li>• 24/7 personal service</li> <li>• Ability to customize and accommodate special needs (peak season etc.)</li> </ul>
	<b>Aspect 3</b> Product & Service Reliability	<b>Price influencers</b> 1) Believeable guarantee of service reliability	<b>Must have for high price point:</b> <ul style="list-style-type: none"> <li>• Transparent contingency plans</li> <li>• Reduncancy resources to ensure reliability</li> </ul>

WHAT I THINK THEY DID	WHAT THE COMPANY & FORBES ARTICLE SAY	IS IT WHAT THEY PROBABLY DID?
<b>SERVICE QUALITY</b>		
<p><b>Quality of output.</b> Positioned themselves as the highest quality service provider in the market (i.e., the cleanest, most spotless laundry).</p>	<p><b>On the website:</b> “Star Laundry guarantees premium service quality and unbeatable efficiency, always...our state-of-the-art wash and dry facilities leave every item of hotel linen immaculate.”</p> <p>“Our attention to detail ensures we never fail to provide pristine hotel linen, towels and sheets.”</p> <p><b>In the article:</b> Hijazi says: “Our selling point is quality...that’s why we have no salesmen”</p>	✓
<p><b>Guarantee &amp; After sales.</b> Put in place processes to quickly rectify complaints and quality problems</p>	<p><b>On the website:</b> ” The rewash process has more aggressive process parameters and a stronger proprietary chemical blend. We do everything we can to get those tough stains out so you can extend the life of your linen!”</p>	✓
<p><b>Materials &amp; In-puts.</b> Started using higher quality chemicals and other inputs</p>	<p><b>On the website:</b> ” Our proprietary chemical blends have built a reputation of bright and white sheets. We will turn your greying sheets white again!”</p>	✓
<b>CUSTOMER SERVICE</b>		
<p><b>24/7 personal service</b> Made themselves personally available to clients 24/7</p>	<p><b>In the article:</b> Hijazi did all the signing up of new customers and “wooed customers by being personally on call (starting at 3:30 a.m.)”</p>	✓
<p><b>Customization &amp; Special needs.</b> Built flexibility into processes to accommodate special needs and unique service packages.</p>	<p><b>On the website:</b> ” Star Laundry can offer customised laundry services, which can be tailored to your specific needs. We provide flexible scheduling and tailor-made solutions that will help your hotels save time, cut costs, and deliver what guests expect”.</p>	✓
<b>RELIABILITY</b>		
<p><b>Problem handling procedures</b> Improved processes and problem handling procedures to reduce quality variance and to improve service reliability.</p>	<p><b>On the website:</b> ” We deliver 365 days per year regardless of holidays, weather, or disasters. Our process and risk mitigation protocol has been designed so that our operation never shuts down despite weather, natural disasters, floods, electrical outages, etc. We are committed to getting your linen back to you!”</p>	✓
<p><b>Redundancy resources</b> Acquired considerable amounts of “redundancy resources” to ensure service reliability even at peak times.</p>	<p><b>On the website:</b> ” Our three facilities are co-located on the same block, and each serves as a redundant backup to one another so you never have to worry about not being able to get your laundry processed.”</p>	✓

## STEP 3 conclusions

So, what to make from all of this? I think the conclusion is that what Hijazi did after taking over the helm was hitting the objectives of STEP 3 with incredible precision. What his first moves were is unclear, but what is evident is that the result was a double whammy - an increase in customer satisfaction and higher selling prices together with cost savings. A boost in margin and a perfect position to get a virtuous cycle spinning.



## STEP 4

**Create virtuous cycle:** the last remaining step is to create the cycle and get it spinning. This is where the increase in margin comes into play as a chunk of it is used to create two distinct “levers” that feed the cycle.

**Lever 1:** an unbeatable price/quality offer.

As we have already learnt, STAR LAUNDRY positioned itself as the highest quality service provider and delivered on its promise. However, what we can learn from the Forbes article is that instead of setting its prices at the top where it could have done, it set them at mid- to upper range to attract clients! This means that it used a chunk of its pricing power and margin potential to hit a price/quality point - that when taking into consideration the state of the market at the time - would have been an unbeatable offer.

**Lever 2:** invest part or all additional margin gained through cost advantages into service quality.

We know from STEP 3 that STAR LAUNDRY was able to bank many of the opportunities to build an advantageous cost structure. However, we also know that it invested heavily into state-of-the-art equipment, proprietary chemical blends, redundancy resources, its own fleet of trucks etc. This suggests the company did not simply pocket its cost advantage, but that it plowed most, if not all, of the extra margin back into improving the business, and ultimately, service quality.





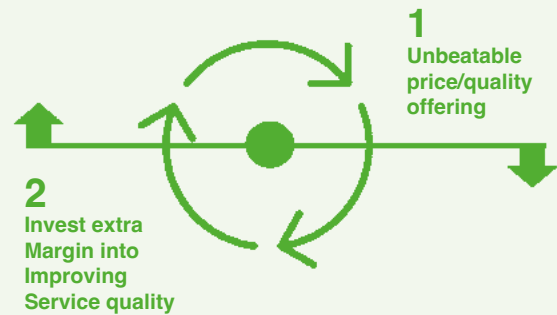
## 1 + 2 = Kick-start

Bringing levers 1 & 2 into play will attract an initial new group of customers providing the first turn of the kick-start wheel. This will in turn result in a dose of additional revenues and margin, giving the company yet another chance to turn the wheel.

### Increasing volume = increasing speed

Once this wheel has spun a few times the value the company can create for its customers grows and grows. This is what is meant by the “continuously improving offering” in the formula below. It’s also what fuels the cycle, spinning it faster and faster at every turn.

#### TURNING THE WHEEL TO KICK-START THE CYCLE



**VIRTUOUS CYCLE** = Higher Margin + Increasing Volume + Continuously improving offering through profit feedback

## Checkmate

And here we come to the finale. The result of all of this is a vacuum-like sucking up of market share, which can explain how STAR LAUNDRY went from 4 million to 70 million in revenues and grabbing a 40% market share for itself in just a few years. For the competition this is a dire situation, since catching up would require doing the same as what STAR LAUNDRY did but in a situation where that move has already been pre-empted. Game over.

## Final thoughts – why i like this case so much

When I started writing this article series, I decided to try to keep each episode at a maximum of 4 pages. Episode 4 is 22 pages! Why? Success stories about tech-startups reaching unicorn status overnight are inspiring but not very useful. There’s rarely much you can learn from them and bring over to your own business.

But hotel laundry is different. It’s a very down-to-earth business that resembles countless other industries across the globe. If Yaakoub Hijazi was able to turn his business into a massive success in his industry, why couldn’t you do the same in yours! There are therefore universal lessons about strategy here that every business can learn and implement. That appealed to me, and instead of writing a short piece on it, I wanted to write a whole playbook. Episode 4 is my attempt to do so. Episode 5 will be 4 pages I promise.



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