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HOTEL yearbook 2013

Scenarios for the year ahead

Puneet Chhatwal, Steigenberger's new CEO, shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

How will 2013 shape up for the key hotel markets worldwide?
30 exclusive country reports from Horwath HTL

Special section: "Spa 2020"
Leading experts explore the next decade in the spa industry

How is your company visualizing its future business landscape?
Woody Wade on scenario planning in the hotel industry

This excerpt from the Hotel Yearbook 2013 is brought to you by :

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WADE & COMPANY

Wade & Company is a Lausanne-based consultancy that helps senior managers in the hospitality industry better understand how their future “business landscape” could change, affecting their competitiveness and creating new opportunities and challenges. Its scenario planning workshops give management teams a creative yet structured approach for envisaging alternative ways their future operating environment could realistically unfold over the next few years, depending on how current uncertainties develop. With these eye-opening insights, Wade & Company’s clients can maximize the flexibility of their strategic plans and be better prepared for whatever future dies arise. More info is at www.11changes.com.

Horwath HTL Hotel, Tourism and Leisure

HORWATH HTL

Horwath Hotel, Tourism and Leisure consulting are the world’s number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world’s largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

HSYNDICATE

HSYNDICATE

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea ‘ONE Industry, ONE Network’, Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate’s specific and context-relevant intelligence delivered to them when they need it and how they need it.

China marches on...

CHINA'S HOSPITALITY INDUSTRY IS REAPING THE REWARDS OF THE CURRENT TOURISM BOOM. ANALYSTS ARE REPORTING POSITIVE MARKET PERFORMANCE AND RECORD HOTEL CONSTRUCTION PIPELINES. IS THIS LEVEL OF GROWTH SUSTAINABLE? WE ASKED **GIOVANNI ANGELINI**, RETIRED CEO OF SHANGRI-LA, FOUNDER OF **ANGELINI HOSPITALITY** AND VICE CHAIRMAN-ADVISOR TO DUSIT OVERSEAS COMPANY, FOR HIS SEASONED PERSPECTIVE.

Let's look at some facts. In 2010, China replaced Japan as the second largest economy in the world, and over the next decade is expected to overtake the USA as the largest economy in purchasing power parity terms.

In March 2011, the National People's Congress approved the 12th Five-Year Plan for National Economic and Social Development, and one of its most remarkable features is the lowering of the target growth rate from 7.5% per annum to 7.0% per annum, at a time when the actual rate (i.e. the one in the 11th five-year plan) was around 11%. Another significant feature of the plan is to shift the economy from being "export-oriented" to being "domestic demand-oriented," encouraging investments in all domestic sectors, from huge public infrastructure projects (roads, high-speed rail systems, increasing the number of airports from 175 to 225, ports, education, housing, etc.) to local-daily consumption – and that is positive for the hospitality industry in general. Relevant features of the plan also include boosting employment, raising minimum wages and encouraging more spending. A gradual and continued appreciation of the Renminbi is also expected. The World Bank forecasts that in 2012, China's growth will stand at 7.4%, which is the lowest in more than a decade but higher than the target of 7.0% – and indications are that the slowdown is bottoming out.

China appetite for foreign goods and investment continues to grow, in particular for natural resources and quality assets around the world. As reported by the Wall Street Journal, \$225 billion, or 3% of the nation's economic output last year, was spent outside China. This is expected to continue in the future. Hotel assets are also targets and in demand.

TOURISM

Outbound Chinese travelers are expected to number close to 80 million in 2012, reaching 100 million by 2017-18. Chinese tourists have become a major target for destination marketing groups and tourist organizations around the world. Chinese consumers are eager to venture forth and to spend.

HOTEL PERFORMANCE 2012 VS. 2011

A recent survey shows that the overall sentiment remains optimistic but with some caution. Little change is expected in occupancy percentage by year-end as compared to the previous year, while the ADR is anticipated to increase but not by more than a single-digit rise. A similar situation is anticipated for 2013. Overall there should be an increase on RevPARs.

NEW HOTEL DEVELOPMENT SUPPLY

China's hotel development is booming, and there are continuous announcements of new projects and/or new international groups/brands entering the country. With close to 350,000 new hotel rooms in planning, design and construction stages as of mid-2012 throughout China, this puts additional pressure on the existing supply. A good percentage of the new supply comes from economy-rated local/China-based groups like Home Inns, Jin Jiang Hotels, 7 Days Inn and others. Every major hotel brand is claiming that it will double the number of properties in the coming years. So far mostly mixed-use hotel projects, sanctioned by the government, have been in major cities, but the smaller cities represent a better business opportunity in the near future. To be noted: while foreign hotel brands are dominating the present operation of the rated (i.e. 4 & 5 star) hotels in China, it is expected that the world's next big hospitality brand success stories may come from Chinese owned and operated hotels.

DEMAND

Fostered by a good education system, entrepreneurial aspirations and increased business opportunities, China's discretionary income has seen a dramatic increase, and the tourism industry has been gaining momentum for the past two decades. It is now ranked third in the UN World Tourism Organization's list of most popular travel destinations, expecting to attract 62 million incoming visitors in 2012. In addition, one must take in consideration the enormous potential of the domestic market, with its ever-growing middle class of over 300 million people, expected to grow to 800 million within 15 years. Can anyone put a number on the room-nights per year that this class will generate for the hotels? (In 2012 there were 3.1 billion

domestic tourists, a 12.8% increase over 2011, as reported by the China Tourism Academy). The aggressive growth in supply is expected to balance the growth in demand, and overall there is optimism that demand will catch up, especially from the newly affluent middle class.

LABOR AND TALENT

Employee productivity and retention are proving to be an increasing challenge. Labor costs have become the single highest operating expense in a hotel. Optimizing organizational structure, effective forecasting and planning for employees' needs have become critical for management/operators. Knowledge of the labor sources and understanding how to attract and retain qualified talent is a basic requirement. Availability of qualified labor/talent is the most challenging element for hotel operators in China at the present time.

CONCERNS FOR OPERATORS

One trend that international brands operating in China will find concerning is that local owners/developers are getting more litigious and demanding, and they have no hesitation at all to terminate management agreements without proper notice and/or compensation. In 2013, operators without an equity investment in their hotels will have to be on the watch to ensure that their interests are protected and that they are compensated in a termination situation. As China's economy and hotel market evolve, developing a comprehensive and active strategy to protect and enhance the hotel asset will become one of the key focuses of the industry.

IMPORTANCE OF SOCIAL MEDIA

Online research has become very important for Chinese consumers, including hotel users. However, offline travel agents are still the dominant distribution channel, even though online channels are growing very fast. China has a huge appetite for social media and is on the way to become the biggest social media-savvy country in the world. Users have increased from 20 million in 2000 to 510 million in 2012: this represents 25% of all the Internet users on earth. Here some useful websites related to hospitality business:



- Chinatraveltrends.com: a useful one-stop resource for information on current tourism, consumer trends, social media, digital marketing and important information on outbound tourism travelling out of China. (site in English)
- Dragontrail.com: for interactive marketing and social media strategy
- China-outbound.com: COTRI, the China Outbound Tourism Research Institute, is a leading advisory and resource firm assisting travel and tourism organizations cater to Chinese tourists. (Site in English and publications/books available for sale)
- Tripshow.com: travel social network platform
- Tencent.com: most used Internet service portal (mobile)
- [Baidu](http://Baidu.com): web search engine (China's equivalent of Google). It has huge market share.
- [Renren](http://Renren.com) and [Kaixin001](http://Kaixin001.com): social networking services (the equivalent of Facebook)
- [Sina Weibo](http://Sina Weibo.com): microblogging (the equivalent of Twitter)
- [Youku](http://Youku.com): video hosting service (the equivalent of YouTube)
- Taobao.com: buying online

Popular Chinese Web sites attracting over 50 million as of second part of 2012 include Qzone, PengYou, Taomee, 51.com, Renren, Kaixin001, Sinaweibo, Tencentweibo and new ones fast approaching this volume. (It is interesting to note that, despite the censorship of Western social networks in China, there are over 60 million users of Facebook and 35 million for Twitter as reported by GlobalWebIndex. Apparently, those banned networks can be accessed through "virtual private networks." The largest active OTAs in China are Ctrip, Qunar, Kuxun, 17u, Trip TaoBao, Elong, and go.qq.com. (Note that Ctrip is also active in booking hotels outside China.)

China marches on... cont.

CENTRAL GOVERNMENT LEADERSHIP SUCCESSION

Under a solid central government and shrewd leadership, China has seen a period of rapid economic expansion and relative political stability. With its efficient collective leadership, past differences over power and policy have been fought out behind a rigorously sustained public face of leadership, unity and discipline. But, as expected (and as encountered at every leadership succession, about every 10 years), signs of a power struggle within the members of the Politburo and high officials representing the central government have created unfavorable speculations, rumors and public frustration about the party's culture of secrecy. The recent, extensively reported downfall of a high-ranking official has added to the speculations. It is expected that all this will be put behind us once the new, less authoritarian leadership is fully in place, and this vast country of over 1,347 million people (over 50 % of them living in cities) will continue its march toward growth, expansion, and prosperity and become the largest economy in the world. With its staggering trade surplus, monetary reserves and non-reliance on foreign borrowing, it is anticipated that China will be able to handle all its major economic issues, including troubles in the banking sector and bad debts on the books of regional government.

A RETURN TO CONFUCIAN DOCTRINE?

This will be an interesting and important trend to watch in 2013. Born and centered in Qufu, Confucius is credited with promoting a social hierarchy in which roles are strictly defined. Students defer to teachers, children revere elders, wives serve husbands, and citizens obey rulers – unless they become abusive. China needs something to fill its moral vacuum, and indications are that government officials hope to make good use of Confucianism – but they also fear criticism for reviving it. The government's critics are divided over the Confucius revival; others see the comeback as a mixed blessing, but overall it is seen as a more positive than negative change. Officials are hoping for a mix of nationalism and Confucianism to glue together China's tattered social fabric.

WANT TO DO BUSINESS IN CHINA NEXT YEAR?

Then you must consider the following:

- Develop a local partnership that can assist with local issues. A foreign entity alone will not succeed in China, especially at the initial stage.
- Get familiar with, and ready to cater to, the Chinese consumer – and plan accordingly.
- Use the Internet, mobile and social media to market to the local consumer. Website hosting in China is very important and ensure that proper Mandarin language is used, not a translation from English (this is a traditional mistake made by most foreigners).
- Develop relationships and participate in, and support, industry-related organizations.
- Understand and respond to fast-changing consumer trends.
- Respect the local culture, rules and habits. Be accepted.
- Develop and implement operating standards based on local trends/needs, not only international trends.
- Be prepared for, and budget for, continuous increases in labor costs. You must train employees and compensate them well with an objective to retain them, thanks to the shortage of labor.
- Don't expect quick results: "plant today and harvest in five years." Be patient and perseverant in China.

THE FUTURE

The biggest event of our time is the very strong re-emergence of China and what it has achieved during the past three decades. Given the huge importance of this event, a lot has been written/commented, and it is interesting to observe two parallel narratives, an "Eastern" one and a "Western" one. The West maintains that China will not be able to support its planned growth, and it will consequently face economic, political and social difficulties. The East believes that the new leadership taking over in November will inject new drive and dynamism in the country, creating reforms and a rule/bonus system that is strong, durable and not vulnerable. This will have a direct positive impact on the future of the country.

Who is right? Where will you put your money? ■

The background of the entire page is a light gray grid of small squares. Scattered across this grid are various geometric shapes in red, black, and white, including triangles, squares, and irregular polygons, some of which are arranged to form the letters of the main title.

MARQUEE IN CHINA

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