The International Hospitality Industry: Overcoming the Barriers to Growth

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Abstract
Facing turbulent economic, political, and environmental conditions, along with shifting travel patterns and consumer preferences that stem in part from rising wealth in several countries, the world’s hospitality industry is facing a wide variety of opportunities and threats. Recognizing the global nature of many industry issues, the Center for Hospitality Research produced the first International Hospitality Roundtable.

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The International Hospitality Industry: Overcoming the Barriers to Growth

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by Jan Hack Katz and Glenn Withiam
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The International Hospitality Industry:

Overcoming the Barriers to Growth

by Jan Hack Katz and Glenn Withiam

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EXECUTIVE SUMMARY

Though each region and nation faces its own challenges and can take advantage of particular opportunities, certain basic operating principles will allow the international hospitality industry to expand and prosper regardless of specific location. The first International Hospitality Roundtable produced by the Cornell Center for Hospitality Research examined the global opportunities and challenges that the industry currently confronts. Starting the discussion were the results of a survey of hotel managers in 56 countries that found a generally optimistic outlook, despite specific local concerns. Among the bright spots, a general rise in tourism and an expansion in both international and domestic travel in both business and leisure segments. Roundtable participants identified such opportunities as growing intergenerational travel and a generally well informed group of travelers who were taking advantage of new services and were interested in novel destinations. Potential negative points involve continued concern over national economic turbulence and local considerations. In several countries, but particularly in China, a shortage of well trained front line and managerial employees was considered a key issue.

For most roundtable participants, excellence in operations was the key regardless of the location and the culture of visitors. While it was necessary to respond to the realities of new visitor demographics and nationalities, those changes were superficial and easily made relative to the human-resources-related difficulties of ensuring high quality service in a superior facility at the right price.
Facing turbulent economic, political, and environmental conditions, along with shifting travel patterns and consumer preferences that stem in part from rising wealth in several countries, the world’s hospitality industry is facing a wide variety of opportunities and threats. Recognizing the global nature of many industry issues, the Center for Hospitality Research produced the first International Hospitality Roundtable.

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To begin the discussion, roundtable chair Jan Katz presented the results of a new study of 143 hotel managers in 56 countries, which asked them to cite their view of the industry’s threats and opportunities. The hotel managers reported that, on balance, the global hotel industry is gradually improving, and the managers generally expect the industry outlook to be even better within the next two years (Exhibit 1). Individual markets and regions face specific headwinds, and the managers acknowledge that the world economic situation remains tenuous.

Emerging markets, including Brazil, China, India, and Russia, are the source of increasing numbers of arrivals in selected locations (Exhibit 2). Brazil’s travelers are visiting other nations in the Americas, as well as top destinations in Europe. Chinese travelers are expanding their regional travel, and also are going to the well-known destinations in Europe. At the moment, the Chinese are more group-tour oriented, but that will gradually change. Likewise, travelers from India are increasing their travel in the East Asia region and Europe, particularly France, as well as the English-speaking commonwealth nations (e.g., Australia and South Africa).

Elaborate weddings constitute a particular market for elite Indian travelers. Families charter a plane to fly everyone to a destination wedding, thus creating the event of a lifetime. Indians are also leading the wave of multi-generational travel, but hotel managers observe that different generations require different types of services. Russians are also traveling in Europe, as well as Latin America and the Middle East. Managers noted that they were delighted at the Russians’ spending on food and beverage, but at times, hotels found it necessary to set up special areas for their functions due to that group’s somewhat boisterous nature.

As asked about travelers’ spending patterns, the managers noted that most travelers are cost conscious and they have seen no real change in spending patterns in recent times (Exhibit 3, next page). However, the respondents added that they felt that demand for more hotel services was fostering spending growth.

The importance of brands is growing internationally, particularly across Europe, in new markets (e.g., China, India), and in small markets (e.g., Croatia, Estonia). Roundtable participants noted that brands seem to be expanding quickly, but if the brand is not contributing to revenues, owners will make a change, in contrast to the last century’s lengthy contractual relationships. Additionally, independents may find themselves in a situation where they need a brand if all their competitors have a brand affiliation. One question is the extent to which international brands can adjust their operations to attract local travelers who have specific preferences based on their stays with domestic brands.

Steve Haggerty, global head of real estate and development of Hyatt, pointed to the need for hotels to offer service
and the infrastructure to deliver that service, rather than rely on a particular design style. A hotel or brand needs to foster a relationship with the customers and create its identity in a particular market.

Looking forward, the managers were hopeful of increasing international tourist interest, a growing domestic economy and resolution of economic problems, improved infrastructure, and expanded interest from investors, among other prospects.

Barriers to growth, on the other hand, include high costs, economic instability, and human resource issues. Concerns about domestic security were cited in certain markets, while capital shortages and overall global security drew a few mentions. European hoteliers were most likely to cite economic insecurity, while high costs were found in such locations as Australia, Costa Rica, Europe, Korea, and Singapore. Human resources issues were divided into employee shortages (in Brazil, China, Germany, Panama, and Russia), and management weaknesses (in China, Costa Rica, and Hong Kong).

International Opportunities

While opportunities are broad, Cornell Professor Cathy Enz pointed out that opportunities can quickly become threats if your competitors are quicker to take advantage of those opportunities. In some cases, the opportunities are so great that they are overwhelming. As Hyatt’s Haggarty pointed out, GDP is rising so rapidly in some countries that it has been difficult to develop the infrastructure of hospitality to keep up with demand. With ten hotels already built in India and fifty in the pipeline, Hyatt is faced with the challenge of managing this large number of projects and in staffing them with qualified employees ready to deliver expected service levels. But to ensure that a hotel company remains its customers’ preferred brand, development must respond to customers’ interests and build where customers are traveling. More generally, international hotel brands must strive to preserve their authenticity as they expand. Not surprising, several brands are interested in the same markets, especially those with GDP growth, since the hotel business expands with prosperity. As a result, roundtable participants pointed out that it is not challenging to find high potential cities or regions, the challenge is finding good real estate within those targeted areas.

Doubling Down

One opportunity that some companies may have missed was the opportunity to move forward by investing during the depths of the 2009 economic turbulence. Tauck Travel, which operates tours in seventy countries, expanded its positioning during the recession and now is ready to meet demand as the world economy recovers. As explained by Dan Mahar, Tauck’s CEO, the company built more high quality river cruise ships in the last few years and expanded in several markets. Along the way, the firm experienced the volatility of world events, including the loss of tourism to Japan after the tsunami, the Egyptian revolution, low water (or high water) throughout Europe, and 2011’s natural disasters. With all of that, Mahar points to a focus on people, rather than product, as the source of a company’s strength.

Mahar says his firm has experienced some of the trends cited in the hotel managers’ study above, including a rise in family travel, especially multigenerational trips. He sees this as a fulfillment of grandparents’ wish to give children...
an experience of the world, and it allows grandparents who live at a distance to reconnect with their grandchildren. Mahar terms this segment an “annuity business,” because it extends over time as each grandchild becomes old enough to travel. More generally, river cruising is built on a model of repeat guests and referrals. The aging population in wealthy countries has meant that river cruises, which eliminate the work of changing hotel rooms at each stop, have become more desirable.

HyunJeong Han, CHR visiting researcher, pointed to another tourism segment—one which has boosted Korea’s tourism market. Korean culture and style have gained popularity in Japan and China. Chinese travelers, for instance, sign on for tours that take them to Korea to see movie stars and purchase Korean goods that are part of the culture. Likewise, middle-aged housewives from Japan visit Korea, also to shop and (they hope) see the stars. As a result, some 4,000 rooms have been added in Korea in recent times (primarily in Seoul).

The impact of electronic communication is definitely being felt in the hospitality industry, and the use of the internet for customer reviews can be a two-edged sword. A guest video that shows a great experience might be viewed by tens of thousands of internet viewers around the world and provide fabulous word-of-mouth. A negative review that gains distribution, however, can be a serious problem. Keeping local managers involved in their property’s internet profile is important so that problems can be resolved, thereby mediating the negative impact of guest criticism.

Online bookings are already high in the United States, followed by Europe and Latin America. While some Asians book online, growth is hindered by the current low use of credit cards. According to Nick Graham of Expedia, the company monitors rates of credit card growth to be able to spot high potential booking markets as they develop. The online shift in countries with low internet penetration is a tailwind for online travel agents. Asia will become a larger market than the U.S. Already, Asia sees more absolute page views than any other location, even though the percentages are small as compared to total population. The mobile trend will remain strong, as these days a person’s first computer is typically a mobile device of some type. Expedia’s expansion into a market begins with hotel owners who understand what Expedia does. Only later do air partners come on board.

**Real Estate Is Complicated**

One issue that Hyatt’s Haggerty cited which potentially stands in the way of taking advantage of market opportunities is the fact that the hotel industry is also a real estate business. Thus, not only must hotel chains operate effectively for guests but they must also work with a host of third-party owners. In fast-growing markets, real estate is at a premium.

Vinay Rama, principal of JHM Hotels, looks for opportunities where real estate deals can be conducted at a good price. He seeks a large scale, which complicates business arrangements. While there is plenty of investment capital and nearly infinite opportunity in several countries, market idiosyncrasies, legal restrictions, a limited qualified workforce, and other factors make execution difficult. As a result, companies need to be sure that there is adequate space for a larger number of hotels to justify the initial market investment needed to overcome those problems. India and China clearly have the necessary scale. The Indian market, however, sees hotels as luxury services and so the government charges a luxury tax on rooms. The industry is trying to convince the government that hotels often constitute infrastructure
improvements that support business growth and so should not be charged a luxury tax.

On the other hand, Colombia is a relatively easy place to do business, but it’s a small market compared to its giant neighbor Brazil, which is more complicated. Ability to execute is the key, rather than whether a market is exciting. To be sure, Rama cautions, it’s not possible to assess opportunities at a distance.

While neither India nor China constitutes an easy development market and both require substantial patience, other countries carry even more serious problems. Confused land titles and long-standing memories of anti-business governments seem to be scaring some firms away from Brazil, for instance, despite its booming economy and excellent prospects. Because current development opportunities are so widespread, hotel companies are working to allocate their capital most efficiently given the large set of desirable markets. Problems that firms might have sought to overcome in former days, though, are now causing them to simply walk away and work instead in an easier market. Expansion is a matter of engagement and collaboration.

Expanding Markets
Despite the challenges, participation in the BRIC markets, which are all supplying rapidly growing numbers of tourists, is critical. Those hotels help companies to develop brand awareness that draws the new travelers to hotels in other destinations. The companies hope that Brazilian, Russian, Indian, and Chinese travelers take their brand knowledge with them when they leave their own countries to explore abroad.

For travelers from traditional source countries, the goal now is to find new destinations or new experiences in their typical destinations. More leisure travelers are seeking authentic experiences in terms of culture, food, and interpersonal interaction. Hyatt’s Haggerty pointed out that executives should recognize the many similarities across markets and realize that maintaining a consistent brand image is important. A brand may sell itself as having a strong sense of place, but for some brands, particularly those focused on business travelers, consistency remains important.

Maria Barton of Deloitte noted that improvements in technology are also making it possible for companies to better understand the guest experience and tailor interaction with guests to be more personalized and meaningful. As guests cross borders, companies can easily make sure that their preferences and behavior patterns follow those guests. If a guest typically has wine with dinner in one hotel’s restaurant, for example, the company may want to send that guest an invitation to visit the bar before dinner when the guest books his next room, regardless of destination. She sees one avenue of opportunity for hotels in becoming an area business, and not just a hotel, by creating alliances and sharing local information.

Innovation Issues
Roundtable participants agreed on both the value and challenges of innovation. Hyatt, for instance, is constantly testing service innovations in its “laboratory hotels,” and has added a corporate position of chief innovation officer.

Heather Jacobs, vice president of human resources for Four Seasons, believes that the industry has maintained too much of a culture of perfectionism in regard to innovation. Hotel companies understandably want new concepts to be perfect before they’re rolled out, but maybe the better approach is to have innovations that respond to guests’ and

Maria Barton: Technology allows hotels to maintain records of guests’ preferences, even as they travel internationally, thus increasing the level of personal and meaningful service.

Heather Jacobs: An excellent source of innovation is employees who feel empowered to make service improvements.
owners’ needs, even if those programs need fine tuning. Mahar added that innovation comes from employees who feel empowered to make changes.

The industry’s structure can be a barrier to innovation, in the view of Regan Taikitsadaporn, vice president of human resources operations, Asia Pacific, for Marriott. Since hotel chains are spending the owners’ money, the brand needs buy-in from many people to implement new ideas. A company might manage 100 hotels but have seventy owners involved. Reflecting Mahar’s earlier point about taking a risk in the midst of economic doldrums, Rama pointed out the reluctance of owners to innovate in bad times. It becomes necessary to convince them of the need to change.

Challenges and Threats
Focusing more specifically on the industry’s challenges, roundtable participants reviewed the issues that the industry faces as it expands internationally. Some issues are global and others relate to specific locations. An obvious risk is political upheaval, but even that has become commonplace in some destinations where governments fall regularly and new politicians come into office. Nevertheless, hotel companies are left to deal with turbulence in many places.

One important challenge is to gain agreement with owners regarding how to proceed with operations and innovations, but the other side of that coin is to deal with owners’ unrealistic expectations. The very fact of expansion creates challenges for maintaining services, in the view of Venu Gopal Chintada, vice president of Sathguru Management Consultants. One threat comes when companies attempt to impose an operations model from one location to another market. For instance, the U.S. model of limited service hotels would not currently work in India, where guests expect food service as a part of the hotel’s service offerings.

Chintada agreed with the earlier point that real estate is a challenge in many places, India in particular. In many locations, a stand-alone hotel wouldn’t make sense, but at the same time creating a multi-use development also has its problems. The big issue is regulation, with many layers of bureaucracy. Another issue in India is the large amount of cash business, including business travelers. Thus, moving to online operations becomes a challenge.

JHM’s Rama shared an example of how business plans must change in response to the realities on the ground. JHM’s initial concept was simple—buy some land and build Hampton and Fairfield Inns. The plan ran into complications at square one, when land was either not available or not properly zoned. JHM switched to a fee-based model and is now developing a multi-use development on a site that became available. Again, their plan for the development was altered when they expected retail and commercial aspects to lead the development, but an education facility was the first to locate in the development. Rama says the lessons include taking time to learn how things work, draw the line on what you’re willing to do, and accept slow growth when necessary.

The Major Challenge of Global Human Resources
The discussion of challenges could not continue without addressing the global problem identified several times in the discussion—human resources. Cornell’s Enz shared a study that she has conducted on two occasions in the past decade, regarding the issues that most worried hotel general managers. Even in the midst of the global economic recession, human resources remained the dominant issue. Cornell
Professor Bruce Tracey noted that one contributor to human resources challenges is that most employees see hotels as a “stepping stone” rather than a career, and human resources management is somehow viewed as a “secondary” kind of position, despite being critical to a hotel’s success.

Four Seasons’s Jacobs agreed with both the importance of human resources to hotel operations and the incorrect perception that it is not a profession. She said that companies need to stress the hotel industry’s great career opportunities because hospitality is a rapidly growing industry, not a declining business. More generally, the hospitality industry can use numerous tactics to encourage employees to apply for and stay in hotel operations. Instead of viewing hotels’ round-the-clock operation as a negative, hotels can point to the flexibility of schedules. This is part of an overall approach of remembering that employees are people, and not just FTEs.

Marriott’s Taikitsadaporn concurred with the idea of communicating appropriately with employees. When his company heard from employees that the first person who spoke with them about their careers was an executive searcher, for example, the firm revised its employee communications strategies to include discussions of career progression with high potential employees. This has helped to motivate employees and increase loyalty. He sees a much more global workforce, because barriers have decreased to workers’ moving from place to place.

Both Jacobs and Taikitsadaporn see a change in the industry practice of automatically moving employees for advancement. Jacobs observed that some people resist frequent moves, especially if they are in dual-career families. Taikitsadaporn noted that the growth in the industry allows employees to grow, and employees can look at cross-functional training. However, employees then face the challenge of how to get experience without making numerous moves.

Human resources challenges vary across countries. In many lower wealth markets, front line hospitality jobs are attractive because the work environment is clean and safe and employees are given attractive uniforms and are fed reasonable meals. In those countries, the challenge is often that low national wages led companies to heavily overstaff, which in turn allowed workers to get used to low levels of effort. As a result, there are service deficits because employees don’t put in the extra effort needed to solve guest problems. Jacobs pointed out that not all employees see the need to be efficient. To combat this, JHM’s Rama says that his company has tried to eliminate much of the overstaffing and make it clear that workers are expected to do more. The company has not seen any resulting wage reductions as a cost savings, however. Instead, they increased the wages to workers who remain to encourage motivation, and they have seen the return in terms of improved service.

Better pay for motivated workers also addresses another problem, as Rama noted. This occurs when a company trains a new hire, who then leaves for another job. Indeed, as the economy expands, workers who once would have chosen the hospitality industry have other options (such as call centers). One solution employed by JHM, Taj, and Oberoi is to operate in-house universities. After all, the hospitality jobs are not low-skill positions, despite a common misperception to that effect. Taikitsadaporn added that workers who have been educated by rote must gradually be trained to use their critical thinking skills.
Rama suggested that identifying those workers with a passion to serve can be a challenge. Jacobs agreed, but sees no “holy grail” in making that determination. Psychometric testing failed to deliver the expected ROI, and she believes the best approach is to observe a person’s service behavior. In some countries, the challenge is finding the right labor pool. In Japan and Korea, for example, there are a large numbers of women whose children are out of the house and whose husbands work long hours. That group is interested in joining the social environment that comes with working at a hotel—earning extra income while getting out of their empty homes.

In the end, the industry must focus on leadership and eliminating archaic employment practices. Taikitsadaporn suggested that finding HR leadership is a similar process to identifying top sales people—there’s not a single way to find and attract the best. Jacobs agreed that there are different ways to make people aware of hospitality opportunities, but it comes down to personal communication. In terms of training, she has found that on-the-job training has been more effective than online training.

Hyatt’s Haggerty summarized the discussion by saying that leadership is the key in HR, as it is in hotel management generally. Comparing one hotel to another, you can trace performance differences directly to the hotel’s leadership. He sees HR as becoming a global discipline, no longer local and operational.

As in so many other areas of the industry, the existing structures for hiring general managers are crumbling. Taikitsadaporn pointed to the importance of emphasizing to the staff that they have the chance to be top management. Expatriates are becoming too expensive to retain for owners in many locations. At the same time, hotel companies need to reconsider the current paradigm in which it’s a “hardship” for an American GM, for instance, to be appointed to a hotel in another country. Instead, hotel companies need a more rational compensation structure that dispenses with “packages,” as is the case with other industries. Given the economy in many countries, people are willing to sign on internationally just for the sake of having a job, no package required.

Considering the barriers created by government policies (or lack thereof), roundtable participants thought the hotel industry could do a better job of explaining its global significance. Taikitsadaporn pointed to the difficulties of acquiring visas in the United States as a barrier to tourism in that country. Travel and tourism is one of the world’s largest export industries, and Expedia’s Graham pointed out that it is more efficient than manufacturing in bringing in foreign exchange. In that regard, industry lobbying has gotten stronger in many places. However, Cornell’s Enz suggested that the industry still doesn’t always tell the story of its contribution to national economies. That’s a story that all roundtable participants thought should be told in their own countries and in all destinations.
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