International hotels

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Abstract

The average growth in international tourist arrivals was 4.5 per cent in 2006, which is substantially above long-term expectations and is a very positive sign for the hotel industry. Hotel chains are rapidly expanding and developing in key markets and the outlook for 2007 is good. The results, however, throw up some interesting pointers on how the global hotel market is changing and how the world's emerging markets are generating increased travellers year on year. The three emerging markets of China, India and the Gulf States are seeing the largest growth opportunities of the industry. It is predicted that between India and China, a total of 1.4 million additional branded hotel rooms will soon be required. The world's largest tourism spend market in the USA still has some room for growth, which is predicted in both domestic and outbound terms to double from \$830bn to \$1.6tn by 2015. Interestingly, this growth is predicted to be mostly at the luxury end of the market. Increased travel by this silver segment will keep Europe as the number one tourism exporting region, delivering some 730 million travellers by 2020. Education and training establishments will be needed at an international standard to retain good quality hotel staff. The industry must also not lose touch with its local roots and like many industries it must 'think globally and act locally'. Hoteliers need to define the brand persona including operations, sales, marketing and service delivery so they are adapted to the different needs of their target generational segment. Customer loyalty will depend on a hotel operator's ability to deliver the brand promise consistently throughout their hotel experience so creating a brand premium.

Keywords:

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INTRODUCTION

In 2006 international tourism achieved a record year with over 820 million people travelling the globe, an increase of 36 million people in 2005, showing the world's increasing global desire for travel and new experiences. In 2006 hotel performances across the world, showed strong revenue per available room (RevPAR) growth. Many operators achieved double-digit increases for the second or third consecutive year.

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The results, however, do throw up some interesting pointers on how the global hotel market is changing and how the world's emerging markets are generating increased travellers year on year.

EMERGING MARKETS

The three emerging markets of China, India and the Gulf States are seeing the largest growth opportunities of the industry. China and India, today second and fourth in GDP purchasing power parity rankings, are forecasted to move up to first and third by 2020 with China overtaking the USA at the top of the ranking.

It is predicted that between India and China a total of 1.4 million additional branded hotel rooms will soon be required. If these markets are to reach the same branded hotel penetration as the UK and US this means 3.6 million rooms, the equivalent of 36,000 hotels.

The Gulf States including Dubai, Qatar, Bahrain and Oman are investing heavily in tourism infrastructure and are looking to challenge the traditional Continental Europe destinations for tourism, leisure, business and residential over the coming years.

As new middle classes appear in these emerging markets, there will be an interesting shift in demand for different types of hotel rooms. To date, hotel developments have been largely four and five star to cater for international leisure and business visitors. With the surge in both domestic and international visitors looking for more economic options, these regions will, however, need more limited service and mid-market hotels. New resorts will also be developed for both domestic and international visitors and with leisure tourism growing faster than business travel, the style of offer will need to reflect this.

As the hotel sector in these regions responds to new travellers, the changes to industry brands will be seen. New names are likely to be created to reflect the needs of target customers. If China or India were to adopt other countries' branded models then a massive increase in branded hotels will result. In the case of the UK model, based on current tourism levels, there would be potential demand for 10,000 new branded hotels in China and 4,000 in India. By way of reference, 66 per cent of hotel rooms in the US and 35 per cent in the UK are branded.

The Middle East's industry has grown substantially over the last few years and now attracts more than 5 per cent of the world's tourists, and is the fourth most visited destination in the world. Hotels across the Middle

East posted their third year of double-digit RevPAR growth in 2006 at 16.7 per cent, which is impressive, bearing in mind the political unrest and the threat of terrorism in the area.

Then there is the huge potential of China and India's international travellers increasing in numbers at a similar speed to their increasing disposable income. As more countries are placed on the Chinese authorised destination list, millions of first-time travellers will begin to travel the world.

OTHER WORLD MARKETS

The year 2006 saw the Central American (+8.7 per cent) and South American (+8.1 per cent) regions well exceed the global average for tourist arrivals. Investors' confidence levels are also rising with the South American nations enjoying an influx of capital from Western Europe, while Central America is benefiting from its proximity to the USA. International hotel chains are also increasing their presence in cities such as Buenos Aires, Caracas and Santiago and we are seeing the supply of the four and five-star rooms swell.

The world's largest tourism spend market, the USA, still has some room for growth, which is predicted in both domestic and outbound terms to double from \$830bn to \$1.6tn by 2015. Interestingly, this growth is predicted to be mostly at the luxury end of the market.

Out of last year's extra 36 million travellers, an extra 17 million arrived in Europe bringing the number arriving in the region to 485 million. Europe's improved economic performance and playing host to a number of major sporting events like the Winter Olympics in Turin, the World Cup in Germany and America's Cup in Spain, gave the region an 8.6 per cent increase in revenue per available room (RevPAR), double the growth seen in 2005.

HOTEL THEMES

Attitudes and lifestyles differ between the main generation segments. These can be referred to as the 'matures', the 'silver baby boomers' and the younger travellers of the Generation Xs' and 'Generation Ys'. These 'silver baby boomers', for example, are living longer, enjoying a more active, younger outlook, are brand wise, travel more and desire new experiences both in culture and tourism. This is important to understand as the percentage of the population aged 65 and over in Europe will increase from 15 per cent in 2000 to nearly 25 per cent by 2015. Increased travel by this silver segment will keep Europe as the number one tourism exporting region, delivering some 730 million travellers by 2020.

The hotel industry needs greater investment in technology, particularly in customer relationship management (CRM) systems, as a means of influencing customer behaviour. There is an opportunity to learn from other industries, like the airline industry's use of air miles, but also to innovate in terms of extending the customer touch-points with the brand beyond the customer's physical stay.

The industry has a high turnover rate of employees and it needs to be better in attracting and retaining employees. The ageing population in many of the developed economies means that, increasingly, employees will be sourced from developing countries. In the developing countries there is very little tradition of hotel management to build on and the recruitment of trained talent is a challenge. Education and training establishments will be needed at an international standard.

The industry must not lose touch with its local roots and like many industries it must 'think globally and act locally'. Cultural differences, local traditions, customs, multi-generational travel, dietary requirements and language must be kept in mind. With the number of Chinese tourists rising rapidly, Mandarin language skills will become increasingly in demand worldwide. Given that China and India present huge potential markets for domestic tourism, investment in product innovation and adaptation to local preferences will be necessary. Although on the one hand globalisation of the industry is underway, more sensitivity towards cultural differences in marketing, hotel development, employee recruitment and training will be crucial.

New markets, while financially attractive, are likely to have unique and individual barriers to entry, including political, ownership, business model and cultural challenges. Hotel companies will need to work through these to achieve the potential for success over the next few years.

With climate change now very much an issue there is also a growing awareness of the need to offset any negative tourism impacts on the environment. The UK, for example, has recently imposed an environmental surcharge on all flights and other European countries are considering their options.

FUTURE OF HOTELS

Innovation in hotels of the future must meet the diverse needs of the different generational requirements. Hoteliers need to define the brand persona including operations, sales, marketing and service delivery so they are adapted to the different needs of their target generational segment. Today, there are an estimated 140+ hotel brands, up from approximately 80 in 1995. These increasing numbers of brands are trying to address the issue of diversity albeit such variety can confuse the customer.

The overlying issue is the paradox of the international versus local brand. It is in this vein that a hotel of the future has been referred to recently at the World Travel and Tourism Council Summit as being 'a micro-cosmos of generational, religious, nationality and cultural integration'.

As product and software platforms converge, IT investments must be rigorously evaluated to ensure spending is matched by greater efficiency and/or increased RevPAR.

Attracting and retaining employees will require investment in new dimensions reflecting 2010 values of international training, including flexible work conditions and stronger ethnic and religious integration.

Customer loyalty on the other hand will depend on a hotel operator's ability to deliver the brand promise consistently throughout their hotel experience, so creating a brand premium. Getting it right will deliver sustained returns and brand premium.

Although economic and industry analysts are not expecting the growth rates we have become used to in recent years to continue at the same pace, it is still predicted that within the great emerging markets there will be an increasing need for a large quantity of branded hotel rooms.