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Increasingly the international chain hotels and restaurants are dominating the major markets around the world. The international chains have the marketing, reservations and advertising resources over time to dominate any market in terms of capturing guests to stay in their hotels and eat in their restaurants. This trend will continue and, in fact, intensify.

The key implications of the dramatic expansion of the chain hotels and restaurants in China are:

- The gravitation of a growing share of the domestic customer base from independents and Chinese chains to the international chains.
- The increasing domination of the inbound hotel and restaurant business by the international chains.
- The reflagging of those independents that meet international standards.
- The building of international brand names of products offered at the chains.

As a result of these implications, the hotel and restaurant industry in China will increasingly resemble many of the major markets worldwide, yet given the uniqueness and complexity of China, this will only happen over time.

If you travel to the major markets around the world, you will increasingly recognize a global core of chain hotel and restaurant names including, but not limited to:

- Marriott
- Hyatt
- Sheraton
- Hilton
- Holiday Inn
- Raffles Int’l.
- InterContinental
- Accor
- McDonalds
- Burger King
- Pizza Hut
- Taco Bell
- KFC
- Tony Roma’s
- Applebee’s
- TGI Friday’s

Increasingly, this is what you are finding in China: It is the “Chainizing of China”, just as has been the case in the majority of the major markets of the Americas, Europe, Africa and the balance of Asia-Pacific.

Since 1997, the number of five-star hotels in China has risen to 282 hotels from 57 hotels, while four-star hotels have doubled to 386, according to the China National Tourism Administration.

Six Continents, which has about 40 Holiday Inns, Crown Plaza and InterContinental hotels in China and Hong Kong indicates that this number will double over the next three to four years. Shangri-La which has 16 of its 38 properties in China, will open 6 new hotels by 2006, 4 of which will be in Shanghai.

As of 1997, only 16% of hotels in China were chain operated, most of them in the three-star or above category and chain hotels accounted for only 11.3% of sales in 1999; whereas in 1987, 64% of hotel rooms in the U.S. were affiliated with hotel chains. Of the world’s 15.4 million rooms in hotels and similar establishments, according to the World Trade Organization, just over 5 million were controlled by the top 300 hotel chains, while 2.7 million by just the top ten.

The major international chains are attracted to China because of its rapid economic growth and tourism development potential: The world knows that for some time to come the future is China. Sheraton placed its first hotel in China in 1985 with The Great Wall Sheraton, followed by several others, as Starwood became the parent company. Holiday Inn, Shangri-La, Ramada and their up market New World brand, Accor and Cendant with the Days Inn flag have all followed.

But the implications relate to both the growth of the chains themselves in China as well as the building of brands from soap to wine at these chain hotels. As the only true store of value is a brand name, the chains benefit the branded products they carry both with the inbound as well as with the outbound guests.

An example of the increasing product brand building opportunities as a result of the dramatic expansion of the chains in China would be a category close to my heart and that is wine. Prior to the significant emergence of the chain hotels and restaurants in China the sole means of building the awareness of imported wines was via the wine distributors, while today it is a combination of marketing efforts of the distributors as well as the chain hotels and restaurants.

Increasingly the chains are offering a better and better selection of wines from around the world, which is rapidly exposing the Chinese consumers to products that they would otherwise not have the opportunity to sample. Once a customer has sampled and appreciated a brand

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name product, they will demand it where they shop, which becomes the real payoff for the brand owners. The chain hotels and restaurants are the vehicle for branded products to secure controlled sampling under ideal conditions, which forces distribution at retail and completes the marketing cycle.

One of the most important contributions and points of differentiation between the international chains and the domestic hotels and restaurants is the extent of professional practices, modern techniques including global reservation systems and international standards of hygiene. The current outbreak of SARS has forced the whole industry in China to re-examine hygiene practices, which in many parts of China are definitely in need of improvement, as recently admitted by the Chinese government.

The Accor two-star Ibus concept has entered China offering one bar and one restaurant coupled with higher standards of professional practices, modern techniques and a global reservations system as well as international standards of hygiene and is competing with a domestic product that offers as many as five restaurants, bowling, karaoke and related entertainment venues, but with questionable standards of conduct and antiquated practices and techniques. Accor is betting that the domestic consumers will choose Ibus or upgrade to their three-star segment product, Novotel over the domestic products, given the points of differentiation.

This will increasingly motivate the independent Chinese hotel owners to seek reflagging and the renovation financing will be far more readily available from the banks, knowing that the new flag will be an international chain. But some of the Chinese independents will not qualify for reflagging, due to a combination of factors, including the peculiar ownership and not being able to finance the construction to meet international standards.

Another restrictive element as pertains to the expansion of indigenous hotel chains in China was the 1995 amendment of the government’s hotel development policy to tighten control over the construction of hotels, due to the growing over-provision, geographic imbalance and unreasonable grade proportion: Over-capacity and a slump in operating profits meant that a great deal of international management expertise was needed.

“Yum! Brands” already has 871 restaurant units in China, including Pizza Hut, Taco Bell, Kentucky Fried Chicken, Long John Silver and A & W Root Beer.

One of the most significant challenges to the dramatic expansion of the international chains in China is the importance of better understanding the Chinese customer and the many regional Chinese identities. In addition, challenges ranging from tenure laws, which limit the maximum hotel ground lease to 40 years; lack of market transparency; significant pricing gap between buyer and seller; dominance of minority interests; the lack of enough local developers, such as Jinjiang International and the Beijing Tourism Group to concerns with earnings repatriation are continuing hindrances.

Several domestic Chinese hotel management companies have now been formed, the first being the White Swan Hotel Management Company in 1998. Since then as many as 50 or more hotel management companies have been formed, but their growth is slow compared to the expansion of the international chains. Those Chinese chains that continue to prosper will be niche players.

All this having been said, it is anticipated that the international chains will at last hit their stride by the year 2010, lifted by China’s entry into the World Trade Organization, the 2008 Olympic Games and the projection by The World Trade Organization that by 2020 China will overtake Italy, the U.S., France and Spain to become the top tourist destination with more than 130 million international visitors.

In addition, it is anticipated that in the future the largest outbound market will be China, which reminds us that one of their key motives of the international chains for developing China is to educate and influence the Chinese people before they start traveling outside their country as to the value of their brand names. The brands that succeed within China will become the brands of choice for the outbound market, which will be a giant reward for the winners. And as many of the nouveau riche Chinese has already begun to travel outside of China, this has as well fueled intra-regional travel within China. Declines in long-haul travel are now forcing hoteliers to think locally, but still hope globally, which translates, once more, to greater regional marketing. Ritz-Carlton and Four Seasons are in high demand due to the new money in China and in particular where real estate is too expensive to justify mid-tier development, while conversions and reflagging will be the rule in overbuilt urban markets.

But in the long run we must return to the point that if the international chains are to succeed in China they must better understand the changing demographics of the Chinese customer, who will comprise 60% to 65% of the customer base and to groom Chinese managers to run the chain hotels and restaurants, with whom this segment feels most comfortable. The cost of a Caucasian manager with an ex-patriot package is five times as expensive as hiring and training local Chinese, even though it takes three years of training to qualify a Chinese hotel manager.

At present one of the major points of differentiation between the international and the domestic hotel chains in China is the global reservations systems. The domestic independents and small chains can at best refer a guest regionally or within China, however, the international chains have the overwhelming advantage of drawing their guests from every point in the world before they step food on Chinese soil.

This important point of differentiation in favor of the international chains is one factor stimulating the consolidation of the major Chinese hotel chains: The most
recent being the merger of the Jinjiang Group of Shanghai and the smaller Xin Ya (New Asia Group) with a combined 71 hotels, 14 catering businesses and 35 KFC outlets. The merged company will be called the Jinjiang Group.

Since many of the Chinese chains are state owned to some degree it is only the arrival of the international chains that has caused them to take notice and work to modernize to survive. The solution for many of the Chinese chains and independents to gain access to global referral systems has been to link with Pegasus Solutions, Leading Hotels of the World, Preferred Hotels Worldwide and among others, Lexington Services Corporation; but the in-house, global reservation systems of the Marriotts, Hyatts and Six Continents continue to remain a competitive advantage.

From a sociological point of view the dramatic expansion of the chain hotels and restaurants in China has created new opportunities for the fast growing middle and upper population sectors to celebrate their nouveau riche status by associating with the international branded hotels and thereby associate with the guests at the international hotels. The international restaurant chains are also providing opportunities for upwardly mobile Chinese to dine with the international visitors and in effect say, “We have arrived and we want to experience the good life”.

As the international chains better adapt to satisfying the Chinese guests and customers, the international chains will change China, just as China will have changed the chains: Thus the chains will then export around the world what they have learned adapting in China, incorporating the best new strategies worldwide. And they will have to, because several of the best Chinese chains that have learned how to replicate the professional standards and modern practices of the international chains will begin to expand outside of China to capture the growing Chinese outbound customers and to entice the world’s travelers with an authentic taste of Chinese hospitality and in their three meal cafes and casual restaurants educate the average American that “Chicken Chow Mien” is no more Chinese than a Ford Windstar.

In terms of direction for further academic research with respect to the dramatic increase of chain hotels and restaurants in China, I would encourage additional research to better define the evolving demographics, sociographics and psychographics of the Chinese customer base for both the domestic as well as the international chains.

We know that the international chains will prevail, we just don’t know how long it will take to happen, but the international chains know that they must win over the growing middle and upper Chinese income sectors as soon as possible, both to fill their hotels within China as well as to capture as great a share as possible of the accelerating Chinese outbound business, which will eventually be the largest such market in the world. Domestic or international: China is the future.

In addition to the numerous interviews I conducted in person, via the Internet and over the telephone to prepare this paper, three of my major sources of information have been the recent special report titled “Asia on the Brink” in the April issue of Hotels magazine, several articles in Hotel Asia Pacific magazine and for historical data and documented projections and other insights the paper that Professor Ray Pine of the Hong Kong Polytechnic University delivered at the “International Hospitality Evolution 2001” conference in Hong Kong 12-14 January 2001, which I was fortunate enough to attend, the paper being titled “The Formation of Indigenous Hotel Chains in China”.

I have used some of the words of the authors without credit, as this was not intended to be a truly academic work with quotations and appropriate footnotes, but rather an informative exposition that includes a combination of facts, relevant opinions and ideas of others who I respect as well as my own thoughts, observations and conclusions. I trust this open, honest and direct disclosure satisfies all those who may recognize some of my work as being the property of themselves or others.